

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

September 30, 2022 and 2021

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

Financial Statements

Years Ended September 30, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau International Coral Reef Center

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Palau International Coral Reef Center (the Center), a component unit of the Republic of Palau, as of and for the years ended September 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Center, as of September 30, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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. 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 Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 from 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 the Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Saipan Office

Suite 203 MH II Building
Marina Heights Business Park
P.O. Box 504053, Saipan, MP 96950
Tel Nos. (670) 235-8722 (670) 233-1837
Fax Nos. (670) 235-6905 (670) 233-8214

Guam Office

333 S. Marine Corps Drive
Suite 102
Tamuning, Guam 96911
Tel Nos. (671) 646-5044 (671) 472-2680
Fax Nos. (671) 646-5045 (671) 472-2686

Palau Office

PIDC Apartment No. 11
PO Box 1266
Koror, PW 96940
Tel Nos. (680) 488-8615
Fax Nos. (680) 488-8616

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 opinions. 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 generally accepted auditing standards 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 generally accepted auditing standards 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 the Center'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 the Center'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.

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.

This supplementary information is the responsibility of the Center's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2025, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Center'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 Center's internal control over financial reporting and compliance.



Koror, Republic of Palau
April 8, 2025



PALAU INTERNATIONAL CORAL REEF CENTER

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

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, 2022, with selected comparative information for the fiscal years ended September 30, 2022 and 2021.

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 Ministry of Finance, Minister of Ministry of Agriculture, Fisheries, and Environment, and the Chief Executive Officer of the Center 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 has added a new building that houses 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 the 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

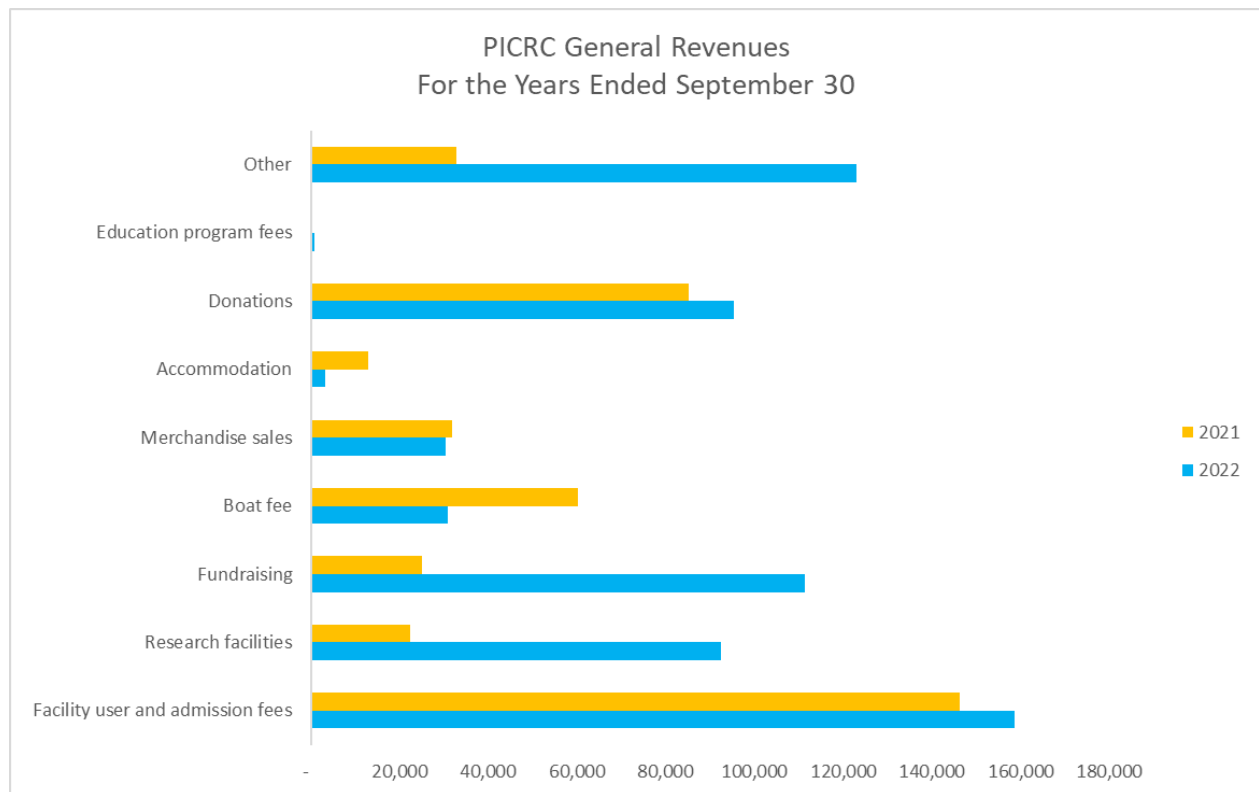
In fiscal year 2022, operating revenues increased by \$909,330 or 93% (\$1,890,142 in fiscal year 2022 versus \$980,812 in fiscal year 2021), mainly due to increase in grants by \$679,446 or 120% through the various grants. Other increases were in Research Facilities of 316%, fundraising 100%, donations 12%, and facility user and admissions fees by 8%. On the other hand, the following were decreased in FY 2022, merchandise sales by -4%, boat fees by -49%, and accommodation by -74%. In FY 2022, the Center was fortunate to receive grants funding to support the research efforts for the Palau National Marine Sanctuary (PNMS) and inshore research through various grantors agencies.

Operating expenses increased by 67% (\$3,134,763 in Fiscal Year 2022 versus \$1,872,093 in Fiscal Year 2021). Salaries and wages increased by 17% mainly due to various salary increments, reclassifications, and new hires in FY 2022. Other increases were in training (650%), dues and subscriptions (14%), and other expenses of 1129% due to reclassification of prior year amounts adjustments. Travel also increased by 291% compared to last fiscal year due to implementing partners for PNMS deliverables travel meetings. Since after COVID-19 and adapting to the new norm, inflation increased, that caused the increase of expenses.

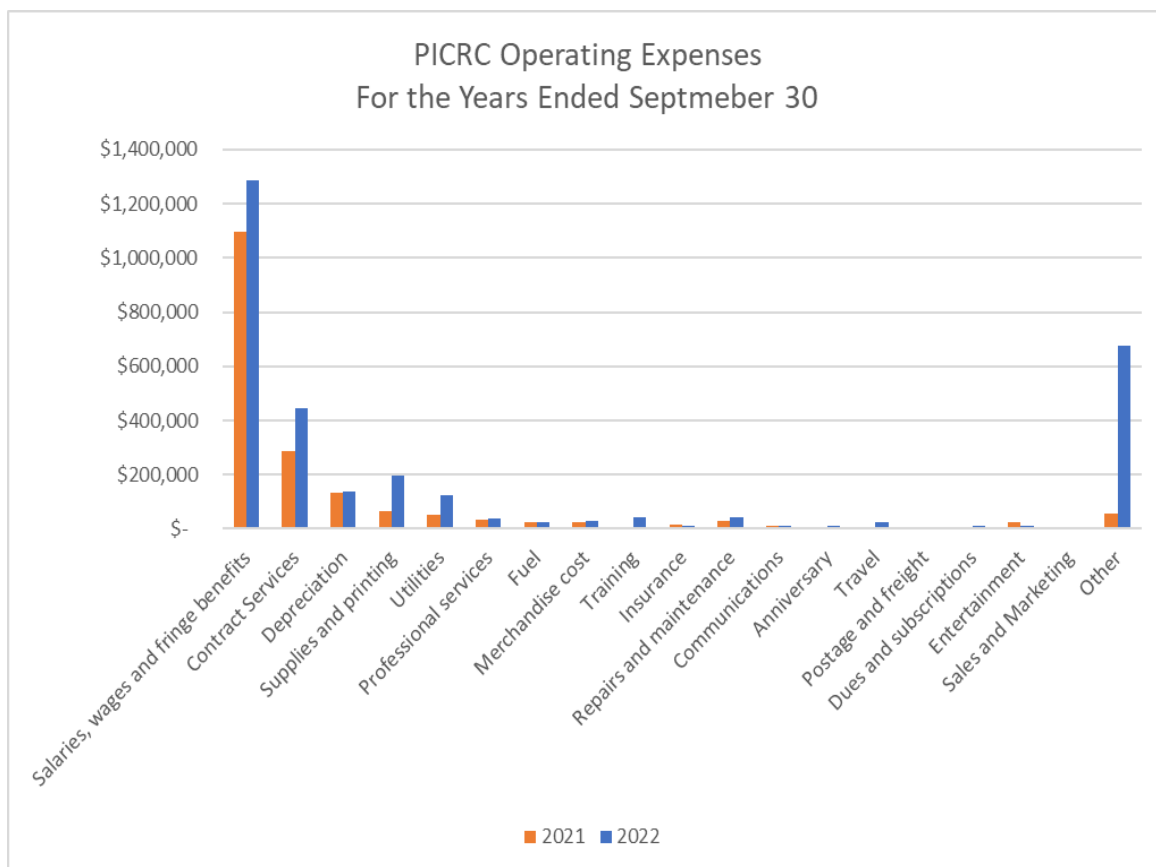
Government appropriation was cut down by \$40,000 from \$400,000 in Fiscal Year 2021 to \$360,000 in Fiscal Year 2022. The Center started receiving Palau Pristine Paradise Environmental Fee (PPEF) in FY 2020 and received \$64,106 in Fiscal Year 2022 compared to none in Fiscal year 2021. Fair value of investments decreased by 313% from \$110,948 in FY 2021 to (\$236,043) in FY 2022. Net income before capital contributions decreased to (\$1,056,558) in FY 2022 compared to (\$379,833) in FY 2021. The current year's decrease is directly attributable to the decrease in government subsidy, and an increase in operating expenses caused mainly by high inflation. As a result, Net position decreased by \$1,056,558 or -65% from \$1,624,885 to \$568,327.

A summary of operations, changes in net position and cash flows for the fiscal years ended September 30, 2022 and 2021 follows:

**Statements of Revenues, Expenses and Changes in Net Position (Charts)
Years Ended September 30, 2022 and 2021**



OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED



Statements of Cash Flows Years Ended September 30, 2022 and 2021

	2022	2021	% Change
Net cash used for operating activities	\$ (352,090)	\$ (947,088)	(63%)
Net cash provided by noncapital financing activities	424,106	400,000	6%
Net cash used for capital and related financing activities	(89,293)	(74,846)	19%
Net cash used investing activities	<u>(26,689)</u>	<u>(731,987)</u>	96%
Net change in cash	(43,966)	(1,353,921)	97%
Cash at beginning of year	<u>382,784</u>	<u>1,736,705</u>	(78%)
Cash at end of year	<u>\$ 338,818</u>	<u>\$ 382,784</u>	

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

OVERVIEW OF FINANCIAL POSITION

Total current assets decreased by \$547,812 or -13% in fiscal year 2022 over fiscal year 2021, due to increase in operating expenses and decrease in the investments in year ended September 30, 2022.

Total assets and deferred in outflows of resources decreased by \$542,513 or -10%, due to the decrease of total receivables net.

Total current liabilities increased by \$259,054 by 169% primarily due to an increase in deferred revenues and accrued expenses in 2022 compared to 2021.

Capital Assets

At September 30, 2022 and 2021, the Center had \$1,406,451 and \$1,454,716, 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. The Center had a decrease of Unrestricted funds of \$1,126,947 in fiscal year 2022 compared to 2021 which represents a net decrease in fiscal year 2022 of \$1,056,558 or -65% over fiscal year 2021 due to prior years adjustments.

Long-Term Liabilities

At September 30, 2022, the Center had an increase in its Net Pension Liability of \$338,542 or 80% as compared to fiscal year 2021. 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, 2022 and 2021 is shown below page 9:

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

Statements of Net Position September 30, 2022 and 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>	Increase (Decrease)	<u>% Change</u>
Current assets:				
Cash	\$ 338,828	\$ 382,784	\$ (43,956)	(11%)
Investments	1,089,022	1,298,376	(209,354)	(16%)
Receivables, net	790,588	1,030,571	(239,983)	(23%)
Inventories	5,327	13,449	(8,122)	(60%)
Prepaid expense	10,213	8,345	1,868	22%
Total current assets	<u>2,233,978</u>	<u>2,733,525</u>	<u>(499,547)</u>	<u>(18%)</u>
Property, plant and equipment, net	<u>1,406,451</u>	<u>1,454,716</u>	<u>(48,265)</u>	<u>(3%)</u>
Total current assets	<u>3,640,429</u>	<u>4,188,241</u>	<u>(547,812)</u>	<u>(13%)</u>
Deferred outflows of resources	<u>1,288,712</u>	<u>1,283,413</u>	<u>5,299</u>	<u>0.4%</u>
Total assets and deferred outflows of resources	<u>\$ 4,929,141</u>	<u>\$ 5,471,654</u>	<u>\$ (542,513)</u>	<u>(10%)</u>
 <u>LIABILITIES DEFERRED INFLOWS OF RESOURCES</u>				
<u>AND NET POSITION</u>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 182,996	\$ 49,666	\$ 133,330	35%
Deferred revenues	<u>228,920</u>	<u>103,196</u>	<u>125,724</u>	<u>33%</u>
Total current liabilities	411,916	152,862	259,054	68%
Net pension liabilities	<u>3,185,695</u>	<u>3,269,246</u>	<u>(83,551)</u>	<u>(22%)</u>
Total liabilities	<u>3,597,611</u>	<u>3,422,108</u>	<u>175,503</u>	<u>46%</u>
Deferred inflows of resources from pension	<u>763,203</u>	<u>424,661</u>	<u>338,542</u>	<u>88%</u>
Total liabilities and deferred inflows of resources	4,360,814	3,846,769	514,045	134%
Total net position	<u>568,327</u>	<u>1,624,885</u>	<u>(1,056,558)</u>	<u>(276%)</u>
Total liabilities and deferred inflows of resources and net position	<u>\$ 4,929,141</u>	<u>\$ 5,471,654</u>	<u>\$ (542,513)</u>	<u>(142%)</u>

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

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 of 2022, the Center notably experienced a significant increase in its revenues because of the various available grants that were granted to support the Center's mission to be the steward of our ocean resources. As the funds increase, so do the expenditures.

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.

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, internship, and in-kind donation.

As the borders reopened, the Center welcomed back research partnerships that have been on hold for the previous two years, collaborating with scientists around the world and begin a new coastal management project with Japan International Cooperation Agency (JICA).

With the tourists slowly increasing, the Aquarium visits slowly increased and the Center was able to update and upgrade the Aquarium facilities, including several new displays and have made it more on educating the tourists and the community on the Center's role in the environment and the research that are being conducted in the Center.

As the Center continues to expand its collaboration and research efforts, the Center continues to seek funding to support the expansion and the continuation of these important efforts that will provide answers through scientific data that will help the stakeholders to protect our resources for future generations.

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 Interim Chief Executive Officer/Director of Administration at the Palau International Coral Reef Center, P.O. Box 7086, Koror, Palau 96940, or e-mail rsblesam@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, 2022 and 2021

<u>ASSETS AND</u>		
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
	<u>2022</u>	<u>2021</u>
Current assets:		
Cash	\$ 338,828	\$ 382,784
Investments	1,089,022	1,298,376
Receivables:		
Grantor agencies	217,823	304,816
Other	582,121	745,786
	<u>799,944</u>	<u>1,050,602</u>
Less allowance for doubtful accounts	<u>(9,356)</u>	<u>(20,031)</u>
Total receivables, net	<u>790,588</u>	<u>1,030,571</u>
Inventories	5,327	13,449
Prepaid expense	<u>10,213</u>	<u>8,345</u>
Total current assets	<u>2,233,978</u>	<u>2,733,525</u>
Capital assets, net	<u>1,406,451</u>	<u>1,454,716</u>
Total assets	3,640,429	4,188,241
Deferred outflows of resources from pension	<u>1,288,712</u>	<u>1,283,413</u>
Total assets and deferred outflows of resources	<u>\$ 4,929,141</u>	<u>\$ 5,471,654</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u>		
<u>AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 86,350	\$ 48,441
Accrued expenses	96,646	1,225
Deferred revenues	<u>228,920</u>	<u>103,196</u>
Total current liabilities	<u>411,916</u>	<u>152,862</u>
Net pension liability	<u>3,185,695</u>	<u>3,269,246</u>
Total liabilities	<u>3,597,611</u>	<u>3,422,108</u>
Deferred inflows of resources from pension	<u>763,203</u>	<u>424,661</u>
Total liabilities and deferred inflows of resources	<u>4,360,814</u>	<u>3,846,769</u>
Net position:		
Invested in capital assets	1,406,451	1,454,716
Restricted	269,222	150,568
Unrestricted	<u>(1,107,346)</u>	<u>19,601</u>
Total net position	<u>568,327</u>	<u>1,624,885</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,929,141</u>	<u>\$ 5,471,654</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Grants	\$ 1,244,090	\$ 564,644
Facility user and admission fees	158,497	146,229
Fundraising	111,322	25,000
Donations	95,290	85,087
Research facilities	92,475	22,250
Boat fees	30,779	60,221
Merchandise sales	30,468	31,899
Accommodations	3,329	12,810
Education program fees	840	-
Other	<u>123,052</u>	<u>32,672</u>
Total operating revenues	<u>1,890,142</u>	<u>980,812</u>
Operating expenses:		
Salaries, wages and fringe benefits	1,286,789	1,096,137
Contract services	446,341	287,476
Supplies and printing	197,784	64,439
Depreciation	137,558	131,053
Utilities	123,839	51,407
Repairs and maintenance	43,058	27,723
Training	41,388	5,522
Professional services	37,189	34,998
Merchandise cost	27,350	25,121
Travel	24,946	6,373
Fuel	23,042	24,469
Dues and subscriptions	12,797	6,639
Entertainment	12,744	23,264
Communications	12,136	11,059
Insurance	10,837	13,096
Anniversary	10,075	3,219
Postage and freight	6,824	3,030
Sales and marketing	3,990	2,080
Other	<u>676,076</u>	<u>54,988</u>
Total operating expenses	<u>3,134,763</u>	<u>1,872,093</u>
Operating loss	<u>(1,244,621)</u>	<u>(891,281)</u>
Nonoperating revenues (expenses):		
Appropriations	360,000	400,000
Palau Pristine Paradise Environmental Fee (PPEF)	64,106	-
Net increase (decrease) in the fair value of investments	(236,043)	110,948
Gain/(Loss) on disposal of assets	<u>-</u>	<u>500</u>
Total nonoperating revenues, net	<u>188,063</u>	<u>511,448</u>
Change in net position	(1,056,558)	(379,833)
Net position at beginning of year	<u>1,624,885</u>	<u>2,004,718</u>
Net position at end of year	<u>\$ 568,327</u>	<u>\$ 1,624,885</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 years ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,255,849	\$ 651,850
Cash payments to suppliers for goods and services	(1,666,253)	(736,307)
Cash payments to employees for services	(941,686)	(862,631)
Net cash used in operating activities	<u>(352,090)</u>	<u>(947,088)</u>
Cash flows from noncapital and related financing activities:		
Appropriations	360,000	400,000
Palau Pristine Paradise Environmental Fee (PPEF)	64,106	-
Net cash provided by noncapital financing activities	<u>424,106</u>	<u>400,000</u>
Cash flows from capital and related financing activities:		
Capital assets acquisitions	(89,293)	(74,846)
Net cash used in capital and related financing activities	<u>(89,293)</u>	<u>(74,846)</u>
Cash flows from investing activities:		
Net change in investments	(236,043)	110,948
Purchase of investments	209,354	(842,935)
Net cash used in investing activities	<u>(26,689)</u>	<u>(731,987)</u>
Net change in cash	(43,966)	(1,353,921)
Cash at beginning of year	382,784	1,736,705
Cash at end of year	<u>\$ 338,818</u>	<u>\$ 382,784</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,244,621)	\$ (891,281)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	137,558	131,053
Noncash pension costs	249,682	233,506
(Gain) loss on disposal of capital assets	-	(500)
(Increase) decrease in assets:		
Receivables grantor agencies	86,993	(111,870)
Receivables, other	152,990	(298,498)
Inventories	8,122	3,576
Prepaid expense	(1,868)	-
Increase (decrease) in liabilities:		
Accounts payable	37,909	(35,492)
Accrued expenses	95,421	(58,988)
Deferred revenues	125,724	81,406
Net cash used in operating activities	<u>\$ (352,090)</u>	<u>\$ (947,088)</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, 2022 and 2021

(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.

Budget and Appropriation

Prior to the commencement of each fiscal year, the Center prepares an operating budget and the OEK – Palau National Legislature enacts legislation resulting in an appropriation for the operation of the Center. Budgetary financial statements are not considered to be a disclosure requirement by management.

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.

Palau International Coral Reef Center
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Notes to Financial Statements, continued
September 30, 2022 and 2021

(2) Summary of Significant Accounting Policies, Continued

Cash

Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Center does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2022 and 2021, the Center had cash totaling \$338,828 and \$382,784 respectively, and the corresponding bank balances were \$436,353 and \$412,753, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2022 and 2021, bank deposits of \$102,989 and \$115,970 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 \$6,877 and \$3,024 and investments of \$1,089,022 and \$1,298,376, have been internally restricted as of September 30, 2022 and 2021, respectively. These restricted funds consist of solicited donations and a portion of operating revenues designated by the Board.

Receivables and the Allowance for Doubtful Accounts

The Center grants credit, on an unsecured basis, to individuals and businesses and governmental entities located in the Republic of Palau. 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.

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. The current policy is to capitalize items in excess of \$1,000.

Palau International Coral Reef Center
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Notes to Financial Statements, continued
September 30, 2022 and 2021

(2) Summary of Significant Accounting Policies, Continued

Investments

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

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

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Notes to Financial Statements, continued
September 30, 2022 and 2021

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

Investments may be made in:

A. Equity Investments

1. Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive relative to the economic or industry sector allocations of the individual index benchmarks set for each Investment Manager.
2. Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.
3. The Investment Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the Investment Managers will be evaluated against their peers on the performance of the total funds under their direct management.
4. Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible.

B. Fixed Income Investments

1. The role of fixed income investments in the Center's portfolio is to offer a highly predictable and dependable source of current cash income and to reduce the volatility of the entire portfolio.
2. All fixed income securities held in the portfolio shall have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB". U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
3. No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the Investment Manager has specific prior written authorization from the Directors.
4. Total portfolio quality (capitalization weighted) shall maintain an "A" rating.

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

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Notes to Financial Statements, continued
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(2) Summary of Significant Accounting Policies, Continued

Investments, continued

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, 2022 and 2021.

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

The Center values its investments at fair value in accordance with GASB Statement No. 31. The Center's investments as of September 30, 2022 and 2021 are as follows:

Investment Type	Fair Value	
	2022	2021
Cash and money market funds	\$ 38,892	\$ 47,461
Exchange-traded and closed-end funds	<u>1,050,130</u>	<u>1,250,915</u>
	<u>\$1,089,022</u>	<u>\$1,298,376</u>

Palau International Coral Reef Center
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Notes to Financial Statements, continued
September 30, 2022 and 2021

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

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:

	<u>2022</u>	Fair Value Measurement Using		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Exchange traded funds	\$ 1,050,130	\$ 1,050,130	\$ -	\$ -
Common stock	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 1,050,130</u>	<u>\$ 1,050,130</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at cost based measure				
Cash and cash equivalents	<u>\$ 38,892</u>			

	<u>2021</u>	Fair Value Measurement Using		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Exchange traded funds	\$ 1,250,915	\$ 1,250,915	\$ -	\$ -
Common stock	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 1,250,915</u>	<u>\$ 1,250,915</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at cost based measure				
Cash and cash equivalents	<u>\$ 47,461</u>			

Palau International Coral Reef Center
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Notes to Financial Statements, continued
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(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurement of the Investments, continued

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, 2022 and 2021, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Center's total investments:

	<u>2022</u>	<u>2021</u>
<u>Exchange-traded and Closed-end Funds:</u>		
Ishares TR Core US AGGBD ET	13%	10%
Ishares TR RUS 1000 Val ETF	6%	6%
Ishares TR RUS 1000 GRW ETF	6%	5%

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, 2022 and 2021.

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, 2022 and 2021, 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.

Palau International Coral Reef Center
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Notes to Financial Statements, continued
September 30, 2022 and 2021

(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurement of the Investments, continued

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, 2022 and 2021, the Center did not have any investments in debt securities.

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.

Taxes

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

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.

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 represent 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.

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 represent 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.

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Notes to Financial Statements, continued
September 30, 2022 and 2021

(2) Summary of Significant Accounting Policies, Continued

Pensions

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

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, 2022 and 2021:

	2022	2021
Rockefeller Philanthropy - Ocean 5 PNMS	\$ 187,732	\$ -
United Nations Development Programme	51,687	82,487
Italian Ministry for Environmental Land and Sea	13,446	13,446
National Geographic Society	10,857	13,000
Micronesia Conservation Trust	5,500	41,635
	\$ 269,222	\$ 150,568

Palau International Coral Reef Center
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Notes to Financial Statements, continued
September 30, 2022 and 2021

(2) Summary of Significant Accounting Policies, Continued

Net Position, continued

- 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.

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 GASB Statement No. 87 did not have an effect on the accompanying financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which 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. The provisions in this Statement are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this Statement will have a material effect on the Center's financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 did not have an effect on the accompanying financial statements.

Palau International Coral Reef Center
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Notes to Financial Statements, continued
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(2) Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, continued

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 the accompanying financial statements.

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 the accompanying financial statements.

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.

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Notes to Financial Statements, continued
September 30, 2022 and 2021

(2) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements, continued

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. GASB Statement No. 99 will be effective for fiscal year ending September 30, 2023.

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Notes to Financial Statements, continued
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(2) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements, continued

In June 2022, GASB issues 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 years ending September 30, 2025.

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

Palau International Coral Reef Center
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Notes to Financial Statements, continued
September 30, 2022 and 2021

(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 multiple employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987 and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2. A single actuarial valuation report is performed annually covering all plan members and the same contribution rate applies to each employer.

The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the Plan's Administrator at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call (680) 488-2523.

Plan Membership. The ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, participate in the Plan. Membership consisted of the following as of October 1, 2021 (the valuation date):

Inactive members currently receiving benefits	1,730
Inactive members entitled to but not receiving benefits	404
Inactive nonvested members	1,105
Active members	<u>3,423</u>
Total members	<u><u>6,662</u></u>

Summary of the Principal Provisions of the Plan.

Effective date:	October 1, 1987
Plan year:	October 1 through September 30

Eligibility to Participate. All persons becoming full-time employees of a participating agency before attaining the age of sixty shall become members as a condition of employment.

Palau International Coral Reef Center
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Notes to Financial Statements, continued
September 30, 2022 and 2021

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

Service:

Vesting Service: Includes membership service and prior service credit.

Membership Service: A year of membership service is earned for a year of service rendered at a participating employer. Years of membership service shall be rounded to the nearest one year. Membership service includes accumulated sick leave and vacation leave.

Prior Service Credit: Persons becoming members of the Plan on October 1, 1987 are entitled to Prior Service Credit for services rendered as an employee of participating agencies, the Trust Territory of the Pacific Islands (TTPI), and the United States Naval Government after World War II and before the establishment of the TTPI.

Pension Benefits. Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Pension Fund receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions. Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty-year mandatory service provisions. These provisions were restored through RPPL 8-10 in October 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

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Notes to Financial Statements, continued
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(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

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

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

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

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

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

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

Notes to Financial Statements, continued
September 30, 2022 and 2021

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

Pension Benefits, continued. 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, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.
- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death 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, 2022 and 2021

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

Pension Benefits, 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 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.

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

Employers and Other Contributions: 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, 2021 and 2020 were \$37,809, and \$34,932, 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, 2022 and 2021

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

Actuarial Assumptions and Other Inputs. The total pension liability was determined by an actuarial valuation as of October 01, 2021 using the following actuarial assumptions and other inputs:

Actuarial Cost Method:	Normal costs are calculated under entry age normal method
Amortization Method:	Level dollar, open with remaining amortization period of 30 years
Asset Valuation Method:	Market Value of Assets
Long-term Expected Rate of Return:	6.74% per year, net of investment expenses, including price inflation
Municipal Bond Index Rate:	2.17%
Year fiduciary net position is projected to be depleted:	2027
Price Inflation:	2.5% per year
Interest on Member Contributions:	5.0% per year
Salary Increase:	3.0% per year
Expenses:	\$300,000 added to normal cost
Mortality:	RP 2000 Combined Healthy Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years.
Termination of Employment:	5% for ages 20 to 39; none for all other ages.

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

Notes to Financial Statements, continued
September 30, 2022 and 2021

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, continued

A. General Information About the Pension Plan, continued:

Actuarial Assumptions and Other Inputs, continued

Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%
Retirement Age:	100% at age 60	
Form of Payment:	Single: Straight life annuity; Married 100% joint and survivor.	
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.	
Duty vs Non-duty related disability:	100% Duty related.	
Refund of Contributions:	80% of terminated vested members elect a refund of contributions.	

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

Notes to Financial Statements, continued
September 30, 2022 and 2021

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, continued

Investment Rate of Return. The long-term expected rate of return on the Plan's investments of 5.95% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of July 2024, the twenty-year arithmetic real rates of return for each major investment class are as follows:

Asset Class	Target Allocation	Expected Rate of Return
US Equities	46%	8.46%
Non-US Equities (Mature Markets)	10%	8.20%
Fixed Income (US Core)	40%	3.72%
Alternatives (Real Estate Investment Trusts)	<u>4%</u>	8.72%
	<u>100%</u>	

Discount Rate. The discount rate used to measure the total pension liability was 2.23% at the current measurement date and 2.28% at the prior measurement date. The discount rate was determined using the current assumed rate of return of 6.74% until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2027. For years on or after 2027, the Municipal Bond Index Rate of 2.17% was used. The Municipal Bond Index Rate from the prior measurement date was 2.28%.

Sensitivity of Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Center as of September 30, 2021, calculated using the discount rate of 2.23%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.23%) or 1.00% higher (3.23%) from the current rate.

	1% Decrease in Discount Rate 1.23%	Current Discount Rate 2.23%	1% Increase in Discount Rate 3.23%
Net Pension Liability	\$ 3,725,948	\$ 3,185,695	\$ 2,743,904

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

Notes to Financial Statements, continued
September 30, 2022 and 2021

(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, 2022 and 2021, the Center reported a liability of \$3,185,695 and \$3,629,246, 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, 2022 and 2021, the Center's proportion was 1.0449% and 0.9493%, respectively.

Pension Expense. For the years ended September 30, 2022 and 2021, the Center recognized pension expense of \$249,682 and \$271,314, respectively.

Deferred Outflows and Inflows of Resources. At September 30, 2022 and 2021, the Center reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 78,325	\$ 517,218	\$ 110,038	\$ 86,480
Net difference between projected and actual earnings on investments	4,482	20,401	6,108	4,185
Change of assumptions	609,930	158,542	701,530	205,500
Authority contributions subsequent to the measurement date	-	-	-	-
Change in proportion and difference between the Center's contributions and proportionate share of contributions	595,975	67,042	465,737	128,496
Total	<u>\$ 1,288,712</u>	<u>\$ 763,203</u>	<u>\$ 1,283,413</u>	<u>\$ 424,661</u>

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

Notes to Financial Statements, continued
September 30, 2022 and 2021

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, continued

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

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of September 30, 2021, to be recognized in pension expense in future years is as follows:

<u>Year ending September 30,</u>	
2022	\$ 68,420
2023	14,925
2024	6,610
2025	48,408
2026	(31,789)
Thereafter	<u>(52,821)</u>
	<u>\$ 53,753</u>

(4) Due from Grantor Agencies

The Center is a direct recipient of contract awards received from the United Nations, Micronesia Conservation Trust, Italy Government, National Geographic Society, and Rockefeller Philanthropy Advisors. 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, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	\$ 304,816	\$ 192,946
Deductions - cash receipts from grantor agencies	(1,065,623)	(248,320)
Additions - program outlays	<u>978,629</u>	<u>360,190</u>
Balance at end of year	<u>\$ 217,822</u>	<u>\$ 304,816</u>

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

Notes to Financial Statements, continued
September 30, 2022 and 2021

(5) Capital Assets

Capital assets as of September 30, 2022 and 2021, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2021	Additions	Deletions	Balance at September 30, 2022
Buildings	10-30 years	\$ 4,270,932	\$ 97,540	\$ -	\$ 4,368,472
Mechanical, electric, research office exhibit and marine equipment	2- 15 years	1,859,598	-	(20,853)	1,838,745
Aquarium	7 years	1,597,826	1,420	-	1,599,246
Furniture and fixtures	5 years	105,223	255	-	105,478
Computers	5 years	38,062	56,920	(16,362)	78,620
Vehicles	5 years	56,288	2,500	-	58,788
CIP in Progress		29,262	-	(29,262)	-
		7,957,191	158,635	(66,477)	8,049,349
Accumulated depreciation		(6,502,475)	(140,423)	-	(6,642,898)
		<u>\$ 1,454,716</u>	<u>\$ 18,212</u>	<u>\$ (66,477)</u>	<u>\$ 1,406,451</u>
		Balance at October 1, 2020	Additions	Deletions	Balance at September 30, 2021
Buildings	10-30 years	\$ 4,270,932	\$ -	\$ -	\$ 4,270,932
Mechanical, electric, research office exhibit and marine equipment	2- 15 years	1,828,957	36,098	(5,457)	1,859,598
Aquarium	7 years	1,597,826	-	-	1,597,826
Furniture and fixtures	5 years	105,223	-	-	105,223
Computers	5 years	28,576	9,486		38,062
Vehicles	3 years	56,289		(1)	56,288
CIP in Progress		-	29,262	-	29,262
		7,887,803	74,846	(5,458)	7,957,191
Accumulated depreciation		(6,377,880)	(131,053)	6,458	(6,502,475)
		<u>\$ 1,509,923</u>	<u>\$ (56,207)</u>	<u>\$ 1,000</u>	<u>\$ 1,454,716</u>

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

Notes to Financial Statements, continued
September 30, 2022 and 2021

(6) Inventories

Inventories as of September 30, 2022 and 2021, consist of the following:

	2022	2021
Merchandise	\$ 3,410	\$ 11,532
Spare parts	1,917	1,917
	\$ 5,327	\$ 13,449

(7) Noncurrent Liabilities

A summary of changes in noncurrent liabilities during fiscal year ended September 30, 2022 and 2021 is as follows:

	Outstanding October 1, 2021	Decreases	Increases	Outstanding September 30, 2022	Current	Noncurrent
Net Pension Liability	\$ 3,269,246	\$ 83,551	\$ -	\$ 3,185,695	\$ -	\$ 3,185,695
	\$ 3,269,246	\$ 83,551	\$ -	\$ 3,185,695	\$ -	\$ 3,185,695
				Outstanding September 30, 2021	Current	Noncurrent
Net Pension Liability	\$ 3,269,246	\$ -	\$ -	\$ 3,269,246	\$ -	\$ 3,269,246
	\$ 3,269,246	\$ -	\$ -	\$ 3,269,246	\$ -	\$ 3,269,246

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

Notes to Financial Statements, continued
September 30, 2022 and 2021

(8) Republic of Palau

During the year ended September 30, 2022 and 2021, the Center recorded appropriations for operations of \$360,000 and 400,000, 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) Reclassifications

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

(11) Subsequent Events

The Center has evaluated subsequent events from October 1, 2021 through April 8, 2025, 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*

	2021	2020	2019	2018	2017	2016	2015	2014	2013
Civil Service Pension Trust Fund (Plan) total net pension liability	\$ 304,866,042	\$ 344,384,167	\$ 308,480,463	\$ 250,868,784	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232	\$ 182,080,330
The Center's proportionate share of the net pension liability	\$ 3,185,695	\$ 3,269,246	\$ 2,548,629	\$ 1,898,628	\$ 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	1.045%	0.949%	0.826%	0.757%	0.809%	0.833%	0.726%	0.873%	0.868%
The Center's covered-employee payroll**	\$ 630,150	\$ 582,200	\$ 493,733	\$ 443,983	\$ 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	505.55%	561.53%	516.20%	427.64%	447.75%	470.99%	444.45%	434.53%	491.39%
Plan Fiduciary net position as a percentage of the total pension liability	19.78%	17.81%	19.37%	23.38%	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.

See accompanying Independent Auditors' Report.

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

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarially determined contribution	\$ 161,633	\$ 149,561	\$ 116,417	\$ 131,021	\$ 138,960	\$ 120,112	\$ 79,187	\$ 92,733	\$ 54,602
Contribution in relation to the actuarially determined contribution	<u>37,809</u>	<u>34,932</u>	<u>29,624</u>	<u>26,639</u>	<u>28,117</u>	<u>26,111</u>	<u>20,999</u>	<u>24,165</u>	<u>21,838</u>
Contribution (excess) deficiency	<u>\$ 123,824</u>	<u>\$ 114,629</u>	<u>\$ 86,793</u>	<u>\$ 104,382</u>	<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>\$ 630,150</u>	<u>\$ 582,200</u>	<u>\$ 493,733</u>	<u>\$ 443,983</u>	<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%	6.00%	6.00%	6.00%	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.

See accompanying Independent Auditors' Report.

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

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

Year Ended September 30, 2022



**INDEPENDENT AUDITOR’S 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***

To the 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 the Palau International Coral Reef Center (the “Center”), which comprise the statement of net position as September 30, 2022, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated April 8, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Center’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Center’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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a material weakness as item 2022-001.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

The Center's Responses to Findings

The Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Koror, Republic of Palau
April 8, 2025

**Palau International Coral Reef Center
(A State of the Republic of Palau)**

Schedule of Findings and Responses
Year Ended September 30, 2022

Finding: 2022-001

Area: General Ledger Account Reconciliation

Criteria:

Per Generally Accepted Accounting Principles (GAAP) and as supported by Government Accountability Office (GAO) Yellow Book standards and internal control principles in the COSO framework, entities are required to implement proper internal control systems to ensure accurate and timely financial reporting. Under GAGAS 2018 Revision §9.31, auditors are to evaluate whether management has designed and implemented effective internal controls over financial reporting, including account reconciliations. Further, GASB Concepts Statement No. 1 emphasizes reliability and timeliness as key objectives of governmental financial reporting.

Specifically:

- General ledger accounts should be reconciled monthly to detect and correct errors promptly.
- Personnel responsible for financial reporting should possess the qualifications and competencies necessary to fulfill their duties effectively (GAGAS 2018 §9.03(c)).
- Financial records should be complete, supported by appropriate documentation, and periodically reviewed by knowledgeable individuals.

Condition:

The Center used its accounting software to generate financial statements; however, numerous material errors were not identified/detected or corrected in a timely manner. Multiple versions of financial statements submitted for audit were for incorrect periods and contained material inaccuracies. The Center also failed to perform monthly reconciliations for multiple significant general ledger accounts, including:

1. Investments
2. Grants receivable
3. Due to/Due from accounts – Interfund transfers were not properly recorded
4. Capital assets and accumulated depreciation
5. Accounts payable
6. Accrued payroll liabilities
7. Deferred revenue and grant revenue
8. Net position
9. Investment interest income
10. Investment management fees
11. Unrealized gains and losses on investments

**Palau International Coral Reef Center
(A State of the Republic of Palau)**

Schedule of Findings and Responses
Year Ended September 30, 2022

Finding: 2022-001, Continued

Area: General Ledger Account Reconciliation

Cause:

The Center does not have a sufficient number of qualified accounting personnel with the necessary technical expertise to fulfill its financial reporting and reconciliation duties. This deficiency is further compounded by the lack of effective internal control policies and supervisory review processes over financial reporting.

Effect:

Failure to reconcile significant general ledger accounts compromises the reliability and integrity of financial reporting. This increases the risk of material misstatements and reduces management's ability to make informed decisions. It also impedes the Center's compliance with GAAP and its ability to produce accurate, timely financial statements as required by oversight bodies and funding agencies and organizations.

Prior Year Status:

This condition cited as a finding in the audits of the Center for fiscal years 2020 and 2021.

Recommendation:

We recommend that the Center implement the following corrective actions:

- Establish and implement policies requiring monthly reconciliations of all significant general ledger accounts, with clear documentation and supervisory review.
- Evaluate current staffing and provide training to accounting personnel to ensure they have the appropriate skills and technical expertise on grant management and accounting, financial reporting and reconciliation procedures.
- Enhance internal control procedures by developing a formal monthly and year-end financial close process, including timelines and responsibilities.
- Designate a responsible official to review reconciliations and financial statement drafts for accuracy and completeness before submission.
- Maintain documentation of all reconciliations and versions of financial statements for audit trail purposes to demonstrate compliance and support decision-making.

**Palau International Coral Reef Center
(A State of the Republic of Palau)**

Schedule of Findings and Responses
Year Ended September 30, 2022

Finding: 2022-001, Continued

Area: General Ledger Account Reconciliation

Auditee Response and Corrective Action Plan:

Name of Contact Person: Caryn Lkong Koshiba, Director of Administration

Correction Action Taken:

Management concurs with the findings and will ensure that monthly reconciliations of the general ledger in the noted areas are performed on a timely and consistent basis. Appropriate training will be provided for accounting staff to carry out these reconciliations effectively. This process will include identifying and correcting any discrepancies to prevent potential material misstatements in the financial statements. Management is committed to strengthening internal controls to maintain the accuracy and integrity of financial reporting.

Proposed Completion Date: FY2023-FY2025