

PALAU INTERNATIONAL CORAL REEF CENTER

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau International Coral Reef Center:

We have audited the accompanying statements of net assets of the Palau International Coral Reef Center (the Center), a component unit of the Republic of Palau, as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Center as of September 30, 2003 and 2002, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the accompanying financial statements, the Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by GASB. This supplementary information is the responsibility of the Center's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2005, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

October 13, 2005

PALAU INTERNATIONAL CORAL REEF CENTER

Management Discussion and Analysis
Fiscal Year Ending September 30, 2003



This Management Discussion and Analysis of the Palau International Coral Reef Center provides an overview to the financial activities and performance of the Center for the fiscal year ended September 30, 2003.

ORGANIZATION AND MISSION

The Palau International Coral Reef Center was created by public law 5-17 in November 1998 as a public non-profit coral reef research, education and training center operating under a board of directors. The mission of the Center is to create a self-sustaining center of excellence for marine research, education and training activities. The Center is designed to assist in improving the management, use and conservation of Palau and the world's marine environment, and to serve as a direct education tool and a tourism attraction through aquarium exhibits which highlight Palau's marine ecosystems and species. Twenty-five full-time staff and three volunteers are currently working at the Center but with research and education programs expanding, there is a need for five additional staff positions.

The project 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 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.

To achieve its mission, the Center developed and adopted its Strategic Plan 2002-2006 with goals and objectives to guide it toward a self-sustaining center of excellence for marine research, training and educational activities. The strategic plan focuses the Center's activities in five program areas - research, environmental education and public awareness, aquarium exhibits, institutional development, and income generation - as key to becoming a center of excellence in self-sustained research and educational programs.

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 assets 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 OPERATION

A growth of 97% in operating revenues was realized from \$312,791 in fiscal year 2002 to \$615,708 in fiscal year 2003. Tourist arrivals from the U.S. and Japan, who made up the bulk of visitors to the Center in 2002, declined by 10% causing a decrease of 12% in gift shop sales and 14% in aquarium admission fees. These were two major reductions in operating revenues. However, they were compensated for by the increases in research facility and boat rentals due to increase in visiting research scientists. Contributions, employee donations to the endowment fund and the increase in education program revenues provided further offset and contributed to the growth in overall operating revenues.

Operating expenses increased by 8% from \$1,658,346 in fiscal year 2002 to \$1,789,057 in fiscal year 2003 due to general growth in services, programs and staffing since opening of the Center in January 2001. Personnel expenses grew 24% with increased level of staffing and, along with expansion of programs and services, the demand for supplies and printing increased by 29%. Expenses in utilities decreased, however, mainly due to the decline in facility use and guest accommodation. The biggest expense is in depreciation. As the Center's facility is still relatively new, the annual depreciation rate is high, causing the decrease of \$823,413 in net assets for fiscal year 2002 and \$540,418 for 2003.

A summary of operations and changes in net assets for both fiscal years ended September 2003 and 2002 follows:

**Operating Revenues and Expenses
Palau International Coral Reef Center**

Summary of fiscal years ended September 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease) from 2002</u>
Operating Revenues			
Contributions	\$ 458,710	\$ 161,145	185%
Facility user and admission fees	43,373	50,150	-14%
Merchandise sales	43,293	49,421	-12%
Office space rental	28,800	26,100	10%
Research facilities	16,321	8,151	100%
Boat fee	15,796	12,108	30%
Accommodation	4,740	5,036	-6%
Endowment fund	2,960	-	INF
Education program	1,715	680	152%
Total Operating Revenues	<u>615,708</u>	<u>312,791</u>	97%
Operating Expenses			
Salaries, wages and fringe benefits	657,453	528,735	24%
Utilities	71,126	82,049	-13%
Supplies and printing	62,021	47,981	29%
Depreciation	758,350	738,309	3%
Other	240,107	261,272	-8%
Total Operating Expenses	<u>1,789,057</u>	<u>1,658,346</u>	8%
Operating loss	<u>(1,173,349)</u>	<u>(1,345,555)</u>	-13%
Nonoperating Revenues (Expenses):			
Appropriations	450,000	450,000	0%
Grants	50,693	10,468	384%
Interest income	16	975	-98%
Donations	10,899	1,045	943%
Other income (expense), net	121,323	59,654	103%
Total Non-operating Revenues	<u>632,931</u>	<u>522,142</u>	21%
Change in Net Assets	(540,418)	(823,413)	-34%
Net Assets at Beginning of Year	<u>5,462,108</u>	<u>6,285,521</u>	-13%
Net Assets at End of Year	<u>\$ 4,921,690</u>	<u>\$ 5,462,108</u>	-10%

OVERVIEW OF FINANCIAL POSITION

Current assets went up 28% in fiscal year 2003 over fiscal year 2002 as the Center evolved and expanded its programs and services over its three years of operation since inception in January 2001. Grants due from grantor agencies increased significantly from \$20,695 in fiscal year 2002 to \$57,695 in fiscal year 2003 or an increase of 179 percent. Except for cash, all other current assets increased in 2003 over 2002 by an average of 67 percent. Due to high rate of depreciation, however, there was a decrease of 9% in total net assets in fiscal year 2003 compared to 2002.

With the growth of the Center as an organization, its current liabilities increased as well in fiscal year 2003 over 2002 by 27% primarily in accounts payables. Unrestricted net assets decreased 2% in fiscal year 2003 over 2002. The decrease of 10% in total net assets is due again to the rate of depreciation.

A summary of the Center's statement of net assets at September 30, 2003 and 2002 is shown below:

Statement of Net Assets Palau International Coral Reef Center

Summary of Statements of Net Assets at September 30, 2003 and 2002

ASSETS	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease) from 2002</u>
Currents Assets			
Cash	\$ 15,539	\$ 54,698	-72%
Receivables	76,117	47,704	60%
Due from Grantors	57,695	20,695	179%
Inventories	80,604	58,899	37%
Prepaid expense	<u>20,739</u>	<u>13,569</u>	53%
Total Current Assets	250,694	195,565	28%
Property, plant and equipment, net	<u>4,765,348</u>	<u>5,340,980</u>	-11%
Total Assets	\$ <u>5,016,042</u>	\$ <u>5,536,545</u>	-9%
LIABILITIES AND NETS ASSETS			
Current Liabilities			
Accounts payable	\$ 43,371	\$ 22,731	91%
Accrued expenses	<u>50,981</u>	<u>51,706</u>	-1%
Total Current Liabilities	<u>94,352</u>	<u>74,437</u>	27%
Net Assets			
Investment in capital assets	4,765,348	5,340,980	-11%
Restricted	57,695	20,695	179%
Unrestricted	<u>98,647</u>	<u>100,433</u>	-2%
Total Net Assets	<u>4,921,690</u>	<u>5,462,108</u>	-10%
Total Liabilities and Net Assets	\$ <u>5,016,042</u>	\$ <u>5,536,545</u>	-9%

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Net Assets
September 30, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets:		
Cash	\$ 15,539	\$ 54,698
Receivables:		
Grantor agencies	57,695	20,695
Republic of Palau	1,000	4,780
Other	75,117	42,924
Inventories	80,604	58,899
Prepaid expense	<u>20,739</u>	<u>13,569</u>
Total current assets	250,694	195,565
Property, plant and equipment, net	<u>4,765,348</u>	<u>5,340,980</u>
	<u>\$ 5,016,042</u>	<u>\$ 5,536,545</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 43,371	\$ 22,731
Accrued expenses	<u>50,981</u>	<u>51,706</u>
Total current liabilities	<u>94,352</u>	<u>74,437</u>
Net assets:		
Investment in capital assets	4,765,348	5,340,980
Restricted	57,695	20,695
Unrestricted	<u>98,647</u>	<u>100,433</u>
Total net assets	<u>4,921,690</u>	<u>5,462,108</u>
	<u>\$ 5,016,042</u>	<u>\$ 5,536,545</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Contributions	\$ 458,710	\$ 161,145
Facility user and admission fees	43,373	50,150
Merchandise sales	43,293	49,421
Office space rental	28,800	26,100
Research facilities	16,321	8,151
Boat fee	15,796	12,108
Accomodation	4,740	5,036
Endowment fund raising	2,960	-
Education program fee	1,715	680
Total operating revenues	<u>615,708</u>	<u>312,791</u>
Operating expenses:		
Depreciation	758,350	738,709
Salaries, wages and fringe benefits	657,453	528,735
Utilities	71,126	82,049
Supplies and printing	62,021	47,981
Travel	51,394	76,796
Merchandise cost	42,318	51,657
Training	26,812	6,179
Insurance	25,898	7,931
Communications	14,708	14,313
Sales and marketing	11,659	27,375
Promotional items	11,408	483
Rental	7,545	4,799
Professional services	6,494	42,658
Repairs and maintenance	6,117	5,231
Catering service	4,695	414
Entertainment	2,545	2,580
Honorariums and meetings	1,521	4,244
Fuel boat	1,018	6,405
Dues and subscriptions	408	449
Fuel generator	-	442
Other	25,567	8,916
Total operating expenses	<u>1,789,057</u>	<u>1,658,346</u>
Operating loss	<u>(1,173,349)</u>	<u>(1,345,555)</u>
Nonoperating revenues:		
Appropriations	450,000	450,000
Grants	50,693	10,468
Interest income	16	975
Donations	10,899	1,045
Other income	121,323	59,654
Total nonoperating revenues	<u>632,931</u>	<u>522,142</u>
Change in net assets	(540,418)	(823,413)
Net assets at beginning of year	<u>5,462,108</u>	<u>6,285,521</u>
Net assets at end of year	<u>\$ 4,921,690</u>	<u>\$ 5,462,108</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from customers	\$ 128,585	\$ 115,493
Cash payments to suppliers for goods and services	(381,489)	(388,647)
Cash payments to employees for services	<u>(199,468)</u>	<u>(329,343)</u>
Net cash used for operating activities	<u>(452,372)</u>	<u>(602,497)</u>
Cash flows from noncapital financing activities:		
Appropriations	450,000	450,000
Interest received	16	975
Other income	<u>121,323</u>	<u>59,654</u>
Net cash provided by noncapital financing activities	<u>571,339</u>	<u>510,629</u>
Cash flows from capital and relating financing activities:		
Property, plant and equipment acquisitions	(182,718)	(9,800)
Cash received from grantor agencies	13,693	31,428
Donations	<u>10,899</u>	<u>1,045</u>
Net cash (used for) provided by capital and related financing activities	<u>(158,126)</u>	<u>22,673</u>
Net decrease in cash	(39,159)	(69,195)
Cash at beginning of year	<u>54,698</u>	<u>123,893</u>
Cash at end of year	<u>\$ 15,539</u>	<u>\$ 54,698</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,173,349)	\$ (1,345,555)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	758,350	738,709
(Increase) decrease in assets:		
Receivables:		
Republic of Palau	3,780	6,771
Other	(32,193)	(42,924)
Inventories	(21,705)	(6,907)
Prepaid expense	(7,170)	(13,569)
Increase (decrease) in liabilities:		
Accounts payable	20,640	22,731
Accrued expenses	<u>(725)</u>	<u>38,247</u>
Net cash used for operating activities	<u>\$ (452,372)</u>	<u>\$ (602,497)</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Cash Flows, Continued
 Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Supplementary schedule of noncash activities:		
Noncash increase in operating expenses	\$ 458,710	\$ 161,145
Noncash increase in contributions	<u>(458,710)</u>	<u>(161,145)</u>
Net effect	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2003 and 2002

(1) Organization

The Palau International Coral Reef Center (the Center), a component unit of the Republic of Palau (ROP), was created on November 20, 1998, under the provisions of Republic of Palau 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 the Republic of Palau 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 general purpose 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 applied to government entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Center has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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 assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

Cash

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2003 and 2002, cash was \$15,539 and \$54,698, respectively, and the corresponding bank balances were \$20,557 and \$62,133, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance.

Inventories

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

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

Property, Plant and Equipment

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

Retirement Plan

The Center contributes to the Palau Civil Service Pension Trust Fund (the Fund), a defined benefit, cost-sharing, multi-employer pension plan established and administered by the Republic of Palau.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic of Palau, Republic of Palau State Governments and Republic of Palau agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are the credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. Members who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. RPPL 2-26 is the authority under which benefit provisions are established. Member contribution rates are established by RPPL 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer.

Under the provisions of RPPL 2-26, the Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law, and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. The Center's payroll for the years ended September 30, 2003 and 2002 was covered by the Fund's pension plan.

The Fund utilizes the actuarial cost method termed "aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 10% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users to evaluate the Fund's funding status on a going-concern basis, and evaluate progress made in accumulating adequate assets to pay benefits when due.

The Fund's October 1, 2001 actuarial valuation determined the unfunded pension benefit obligation as follows:

Participants in pay status	\$ 39,546,016
Active participants	24,388,855
Participants with vested deferred benefits	<u>572,878</u>
Total pension benefit obligation	64,507,749
Net assets available for benefits, at market value	<u>33,964,168</u>
Unfunded benefit obligation	\$ <u>30,543,581</u>

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

Compensated Absences

Vested or accumulated unpaid annual leave is accrued when earned and is included in the balance sheet 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.

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.

New Accounting Standards

GASB has issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and modified by Statement No. 38, *Certain Financial Statement Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements. The Center is required to adopt GASB Statement No. 34, as amended by GASB Statement No. 37, and certain provisions of GASB Statement No. 38 in fiscal year 2003.

To conform to the requirements of GASB 34, the following changes have been made to the Center's financial statements:

- Retained earnings have been reclassified into the following net assets categories:
 - Investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
 - Restricted: net assets 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.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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.
- The statement of cash flows has been presented using the direct method.

For fiscal year 2005, the Center will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. As of September 30, 2003, the Center has not evaluated the financial statement impact of GASB Statement Nos. 40 and 42.

(3) Due From Grantor Agencies

The Center is a direct recipient of a contract award received from the U.S. Department of Commerce. The Center is also a subrecipient of grants received from the South Pacific Regional Environment Program and Marine Resource Pacific Consortium (MAREPAC). 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, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Balance at beginning of year	\$ 20,695	\$ 41,655
Deductions - cash receipts from grantor agency	(13,693)	(31,428)
Additions - program outlays	<u>50,693</u>	<u>10,468</u>
Balance at end of year	\$ <u>57,695</u>	\$ <u>20,695</u>

(4) Inventories

Inventories as of September 30, 2003 and 2002, consist of the following:

	<u>2003</u>	<u>2002</u>
Spare parts	\$ 57,377	\$ 35,408
Merchandise	<u>23,227</u>	<u>23,491</u>
	\$ <u>80,604</u>	\$ <u>58,899</u>

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2003 and 2002

(5) Property, Plant and Equipment

Property, plant and equipment as of September 30, 2003 and 2002, consist of the following:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2003</u>
Buildings	10 - 30 years	\$ 3,587,952	\$ 8,778	\$ -	\$ 3,596,730
Mechanical, electrical, research, office, exhibit and marine equipment	2 - 15 years	1,666,529	96,427	-	1,762,956
Aquarium	7 years	1,486,239	8,699	-	1,494,938
Furniture and fixtures	5 years	145,282	9,540	-	154,822
Computers	5 years	-	59,274	-	59,274
Vehicles	3 years	<u>25,652</u>	<u>-</u>	<u>-</u>	<u>25,652</u>
		6,911,654	182,718	-	7,094,372
Less accumulated depreciation		<u>(1,570,674)</u>	<u>(758,350)</u>	<u>-</u>	<u>(2,329,024)</u>
		<u>\$ 5,340,980</u>	<u>\$ (575,632)</u>	<u>\$ -</u>	<u>\$ 4,765,348</u>
	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2002</u>
Buildings	10 - 30 years	\$ 3,587,952	\$ -	\$ -	\$ 3,587,952
Mechanical, electrical, research, office, exhibit and marine equipment	2 - 15 years	1,656,729	9,800	-	1,666,529
Aquarium	7 years	1,486,239	-	-	1,486,239
Furniture and fixtures	5 years	145,282	-	-	145,282
Vehicles	3 years	<u>25,652</u>	<u>-</u>	<u>-</u>	<u>25,652</u>
		6,901,854	9,800	-	6,911,654
Less accumulated depreciation		<u>(831,965)</u>	<u>(738,709)</u>	<u>-</u>	<u>(1,570,674)</u>
		<u>\$ 6,069,889</u>	<u>\$ (728,909)</u>	<u>\$ -</u>	<u>\$ 5,340,980</u>

(6) Republic of Palau

During each of the years ended September 30, 2003 and 2002, the Center was appropriated \$450,000 through RPPLs 6-26 and 6-12 for operations.

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.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2003 and 2002

(7) Contributions

During the years ended September 30, 2003 and 2002, the Center received \$458,710 and \$161,145, respectively, of in-kind contributions of personnel costs, primarily from the Japan International Cooperation Agency. These contributions are reflected as contributions and operating expenses in the accompanying financial statements.

(8) Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage.