

PALAU INTERNATIONAL CORAL REEF CENTER

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

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, 2004 and 2003, 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, 2004 and 2003, 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.

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 the Governmental Accounting Standards Board. 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 27, 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 27, 2005

PALAU INTERNATIONAL CORAL REEF CENTER

Management Discussion and Analysis
Fiscal Year Ending September 30, 2004

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, 2004.

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 decrease of 7% in operating revenues was realized from \$615,708 in fiscal year 2003 to \$569,574 in fiscal year 2004. Tourist arrivals from the Republic of China-Taiwan, who made up the bulk of visitors to the Center, increased by 81% (21,220 in 2004 vs. 4,099 in 2003) contributing much to the 46% increase in gift shop sales and 130% in aquarium admission fees, which compensated for the decreases in contributions, office space rental and research facilities. Taiwan arrivals make up about 75% (21,220) of the total visitors to the Palau Aquarium (28,452). In 2004, total arrivals to Palau were 89,161, and the Palau Aquarium was able to attract 28,452 of them, which translates into a 32% market share. In April 2004, the group city tour package was doubled, from \$2.00 adult fee and \$1.00 child fee to \$4.00 and \$2.00, respectively, thus contributing to the increase in aquarium admissions. Employee donations to the endowment fund and the increases in boat fee and accommodation provided further offset in overall operating revenues.



Operating expenses decreased by 7% from \$1,789,057 in fiscal year 2003 to \$1,659,659 in fiscal year 2004. Personnel expenses decreased by 12% and the cost of supplies and printing decreased by 6%. Expenses in utilities increased by 9% mainly due to the increase in facility use and guest accommodation. The biggest expense is depreciation. As the Center's facility is still relatively new, the annual depreciation rate is high, causing the decrease of \$540,418 in net assets for fiscal year 2003 and \$480,495 for 2004.

A summary of operations and changes in net assets for both fiscal years ended September 2004 and 2003 follows:

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

Summary of fiscal years ended September 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease) from 2003</u>
Operating Revenues			
Contributions	\$ 327,563	\$ 458,710	-29%
Facility user and admission fees	99,965	43,373	130%
Merchandise sales	63,272	43,293	46%
Office space rental	24,000	28,800	-17%
Research facilities	13,151	16,321	-19%
Boat fee	22,511	15,796	43%
Accommodation	9,820	4,740	107%
Endowment fund raising	7,740	2,960	161%
Education program fee	<u>1,552</u>	<u>1,715</u>	-10%
Total Operating Revenues	<u>569,574</u>	<u>615,708</u>	-7%
Operating Expenses			
Salaries, wages and fringe benefits	579,255	657,453	-12%
Utilities	77,777	71,126	9%
Supplies and printing	58,415	62,021	-6%
Depreciation	607,152	758,350	-20%
Other	<u>337,060</u>	<u>240,107</u>	40%
Total Operating Expenses	<u>1,659,659</u>	<u>1,789,057</u>	-7%
Operating loss	<u>(1,090,085)</u>	<u>(1,173,349)</u>	-7%
Nonoperating Revenues (Expenses):			
Appropriations	450,000	450,000	0%
Grants	127,795	50,693	152%
Interest income	127	16	694%
Donations	3,922	10,899	-64%
Other income	<u>27,746</u>	<u>121,323</u>	-77%
Total Nonoperating Revenues	<u>609,590</u>	<u>632,931</u>	-4%
Change in Net Assets	(480,495)	(540,418)	-11%
Net Assets at Beginning of Year	<u>4,921,690</u>	<u>5,462,108</u>	-10%
Net Assets at End of Year	\$ <u>4,441,195</u>	\$ <u>4,921,690</u>	-10%

OVERVIEW OF FINANCIAL POSITION

Current assets decreased by 4% in fiscal year 2004 over fiscal year 2003, but the Center continues to evolve and expand its programs and services over its four years of operation since inception in January 2001. Grants due from grantor agencies decreased significantly from \$57,695 in fiscal year 2003 to \$20,015 in fiscal year 2004 or a decrease of 65%. All other current assets decreased in 2004 over 2003 by an average of 90%. Due to high rate of depreciation, however, there was a decrease of 9% in total assets in fiscal years 2004 and 2003.

With the growth of the Center as an organization, its current liabilities increased in fiscal year 2004 over 2003 by 26% primarily in deferred revenue. Unrestricted net assets increased 3% in fiscal year 2004 over 2003. 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, 2004 and 2003 is shown below:

Statement of Net Assets Palau International Coral Reef Center

Summary of Statements of Net Assets at September 30, 2004 and 2003

ASSETS	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease) from 2003</u>
Currents Assets			
Cash	\$ 44,833	\$ 15,539	186%
Receivables	70,938	76,117	-7%
Due from Grantors	20,015	57,695	-65%
Inventories	79,395	80,604	-1%
Prepaid expense	<u>24,881</u>	<u>20,739</u>	20%
Total Current Assets	240,062	250,694	-4%
Property, plant and equipment, net	<u>4,319,589</u>	<u>4,765,348</u>	-9%
Total Assets	\$ <u>4,559,651</u>	\$ <u>5,016,042</u>	-9%
LIABILITIES AND NETS ASSETS			
Current Liabilities			
Accounts payable	\$ 39,239	\$ 43,371	-10%
Deferred revenue	25,487	-	INF
Accrued expenses	<u>53,730</u>	<u>50,981</u>	5%
Total Current Liabilities	<u>118,456</u>	<u>94,352</u>	26%
Net Assets			
Investment in capital assets	4,319,589	4,765,348	-9%
Restricted	20,015	57,695	-65%
Unrestricted	<u>101,591</u>	<u>98,647</u>	3%
Total Net Assets	<u>4,441,195</u>	<u>4,921,690</u>	-10%
Total Liabilities and Net Assets	\$ <u>4,559,651</u>	\$ <u>5,016,042</u>	-9%

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Net Assets
September 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current assets:		
Cash	\$ 44,833	\$ 15,539
Receivables:		
Grantor agencies, net	20,015	57,695
Republic of Palau	40,500	1,000
Other, net	30,438	75,117
Inventories	79,395	80,604
Prepaid expense	<u>24,881</u>	<u>20,739</u>
Total current assets	240,062	250,694
Property, plant and equipment, net	<u>4,319,589</u>	<u>4,765,348</u>
	<u>\$ 4,559,651</u>	<u>\$ 5,016,042</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 39,239	\$ 43,371
Deferred revenue	25,487	-
Accrued expenses	<u>53,730</u>	<u>50,981</u>
Total current liabilities	<u>118,456</u>	<u>94,352</u>
Net assets:		
Investment in capital assets	4,319,589	4,765,348
Restricted	20,015	57,695
Unrestricted	<u>101,591</u>	<u>98,647</u>
Total net assets	<u>4,441,195</u>	<u>4,921,690</u>
	<u>\$ 4,559,651</u>	<u>\$ 5,016,042</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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Contributions	\$ 327,563	\$ 458,710
Facility user and admission fees	99,965	43,373
Merchandise sales	63,272	43,293
Office space rental	24,000	28,800
Boat fee	22,511	15,796
Research facilities	13,151	16,321
Accomodation	9,820	4,740
Endowment fund raising	7,740	2,960
Education program fee	<u>1,552</u>	<u>1,715</u>
Total operating revenues	<u>569,574</u>	<u>615,708</u>
Operating expenses:		
Depreciation	607,152	758,350
Salaries, wages and fringe benefits	579,255	657,453
Utilities	77,777	71,126
Supplies and printing	58,415	62,021
Travel	53,301	51,394
Merchandise cost	47,500	42,318
Bad debts	37,413	-
Rental	23,891	7,545
Insurance	19,979	25,898
Repairs and maintenance	17,407	6,117
Professional services	13,556	6,494
Communications	13,544	14,708
Sales and marketing	11,202	11,659
Training	10,912	26,812
Promotional items	7,238	11,408
Entertainment	4,097	2,545
Catering service	2,763	4,695
Honorariums and meetings	2,302	1,521
Dues and subscriptions	1,734	139
Fuel boat	450	1,018
Other	<u>69,771</u>	<u>25,836</u>
Total operating expenses	<u>1,659,659</u>	<u>1,789,057</u>
Operating loss	<u>(1,090,085)</u>	<u>(1,173,349)</u>
Nonoperating revenues:		
Appropriations	450,000	450,000
Grants	127,795	50,693
Other income	27,746	121,323
Donations	3,922	10,899
Interest income	<u>127</u>	<u>16</u>
Total nonoperating revenues	<u>609,590</u>	<u>632,931</u>
Change in net assets	(480,495)	(540,418)
Net assets at beginning of year	<u>4,921,690</u>	<u>5,462,108</u>
Net assets at end of year	<u>\$ 4,441,195</u>	<u>\$ 4,921,690</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 228,368	\$ 128,585
Cash payments to suppliers for goods and services	(442,904)	(381,489)
Cash payments to employees for services	(248,943)	(199,468)
Net cash used for operating activities	<u>(463,479)</u>	<u>(452,372)</u>
Cash flows from noncapital financing activities:		
Appropriations	450,000	450,000
Interest received	127	16
Other income	27,746	121,323
Net cash provided by noncapital financing activities	<u>477,873</u>	<u>571,339</u>
Cash flows from capital and relating financing activities:		
Property, plant and equipment acquisitions	(161,393)	(182,718)
Cash received from grantor agencies	172,371	13,693
Donations	3,922	10,899
Net cash provided by (used for) capital and related financing activities	<u>14,900</u>	<u>(158,126)</u>
Net increase (decrease) in cash	29,294	(39,159)
Cash at beginning of year	15,539	54,698
Cash at end of year	<u>\$ 44,833</u>	<u>\$ 15,539</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,090,085)	\$ (1,173,349)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	607,152	758,350
Bad debts	37,413	-
(Increase) decrease in assets:		
Receivables:		
Republic of Palau	(39,500)	3,780
Other	25,857	(32,193)
Inventories	1,209	(21,705)
Prepaid expense	(4,142)	(7,170)
Increase (decrease) in liabilities:		
Accounts payable	(4,132)	20,640
Accrued expenses	2,749	(725)
Net cash used for operating activities	<u>\$ (463,479)</u>	<u>\$ (452,372)</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Cash Flows, Continued
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Supplementary schedule of noncash activities:		
Noncash increase in operating expenses	\$ 327,563	\$ 458,710
Noncash increase in contributions	<u>(327,563)</u>	<u>(458,710)</u>
Net effect	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2004 and 2003

(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, 2004 and 2003, cash was \$44,833 and \$15,539, respectively, and the corresponding bank balances were \$54,026 and \$20,557, 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, 2004 and 2003

(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, 2004 and 2003 was covered by the Fund's pension plan.

The Fund utilizes the actuarial cost method termed "agreement cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 8.5% 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, 2003 actuarial valuation determined the unfunded pension benefit obligation as follows:

Participants in pay status	\$ 42,482,000
Active participants	31,066,000
Participants with vested deferred benefits	<u>1,540,000</u>
Total pension benefit obligation	75,088,000
Net assets available for benefits, at market value	<u>36,247,000</u>
Unfunded benefit obligation	\$ <u>38,841,000</u>

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2004 and 2003

(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.

Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, has required the Center to establish net asset categories as follows:

- 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.
- 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.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

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)*, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. As of September 30, 2004, the Center has not evaluated the financial statement impact of GASB Statement Nos. 40, 42 and 46.

(3) Due From Grantor Agencies

The Center is a direct recipient of a contract award received from the U.S. Department of Commerce and the David and Lucile Packard Foundation. 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, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$ 57,695	\$ 20,695
Deductions - cash receipts from grantor agency	(172,371)	(13,693)
Additions - program outlays	127,795	50,693
Deferred revenue	25,487	-
Allowance for doubtful accounts	<u>(18,591)</u>	<u>-</u>
Balance at end of year	\$ <u>20,015</u>	\$ <u>57,695</u>

(4) Inventories

Inventories as of September 30, 2004 and 2003, consist of the following:

	<u>2004</u>	<u>2003</u>
Spare parts	\$ 42,519	\$ 57,377
Merchandise	<u>36,876</u>	<u>23,227</u>
	\$ <u>79,395</u>	\$ <u>80,604</u>

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2004 and 2003

(5) Property, Plant and Equipment

Property, plant and equipment as of September 30, 2004 and 2003, consist of the following:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2004</u>
Buildings	10 - 30 years	\$ 3,596,730	\$ 11,592	\$ -	\$ 3,608,322
Mechanical, electrical, research, office, exhibit and marine equipment	2 - 15 years	1,762,956	105,206	-	1,868,162
Aquarium	7 years	1,494,938	-	-	1,494,938
Furniture and fixtures	5 years	154,822	-	-	154,822
Computers	5 years	59,274	-	-	59,274
Vehicles	3 years	<u>25,652</u>	<u>44,595</u>	<u>-</u>	<u>70,247</u>
		7,094,372	161,393	-	7,255,765
Less accumulated depreciation		<u>(2,329,024)</u>	<u>(607,152)</u>	<u>-</u>	<u>(2,936,176)</u>
		<u>\$ 4,765,348</u>	<u>\$ (445,759)</u>	<u>\$ -</u>	<u>\$ 4,319,589</u>
	<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>

(6) Republic of Palau

During each of the years ended September 30, 2004 and 2003, the Center was appropriated \$450,000 through RPPLs 6-37 and 6-26 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, 2004 and 2003

(7) Contributions

During the years ended September 30, 2004 and 2003, the Center received \$327,563 and \$458,710, 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.