PALAU INTERNATIONAL CORAL REEF CENTER
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

Deloitte.

Deloitte & Touche LLC
P.O. Box 500308
Saipan, MP 96950-0308
USA

Tel: +1 670 322 7337/0860/0861
Fax: +1 670 322 7340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau International Coral Reef Center:

Report on the Financial Statements

We have audited the accompanying financial statements of the Palau International Coral Reef Center (the Center), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palau International Coral Reef Center as of September 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 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 Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Center's basic financial statements. The Schedule of Investments as of September 30, 2013 (pages 25 and 26) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Investments is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Investments is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2014 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Deloitte & Touche LLC

April 25, 2014

Palau International Coral Reef Center

PALAU INTERNATIONAL CORAL REEF CENTER

Management's Discussion and Analysis
Fiscal Year Ended September 30, 2013

This Management's Discussion and Analysis of the Palau International Coral Reef Center (the Center) provides an overview to the financial activities and performance of the Center for the fiscal year ended September 30, 2013, with selected comparative information for the fiscal years ended September 30, 2012 and 2011.

ORGANIZATION AND MISSION

The Center was created by Public Law 5-17 in November 1998 as a public nonprofit coral reef research, education and training center operating under a Board of Directors. The mission of the Center is to be an international center of excellence to support conservation and management for the perpetuation of marine and associated environments through research and education that is significant to Palau and relevant to the world. 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.

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.

To achieve its mission, the Center developed and adopted its Strategic Plan 2002-2006 (phase 1) 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 center of excellence in self-sustained research and educational programs.

In September 2006 when phase 1 of the Palau International Coral Reef Center Strengthening Project was completed, the Center developed and adopted Strategic Plan 2007-2012, which is phase 2 of the project with the same focus on the five program areas, but with a regional focus. That is, sharing what we have learned over the years with our neighbors in the Micronesia region by way of collaboration, sharing and transfer of knowledge, and capacity building. Activities of the Center will be locally responsive and globally significant.

In November 2012, the Center adopted a more streamline five-year Strategic Plan with a clear vision and core values along with its mission.

VISION

The Center envisions people empowered with science and knowledge for effective marine conservation and management.

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.

P. O. Box 7086 Koror, Republic of Palau 96940
Tel. 680.488.6950 Fax. 680.488.6951 email. picrc@picrc.org http://www.PICRC.org

CORE VALUES, CONTINUED

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 2013, operating revenues increased by 42% ($953,762 in fiscal year 2013 versus $673,546 in fiscal year 2012) mainly due to increases in research facilities by 389%, grant revenues by 114%, education program fee by 116%, merchandise sales by 47%, boat fee by 6% and other revenues by 165%. On the other hand, facility user and admission fees decreased by 17% mainly due to a decrease in admissions to the aquarium. As Palau is still recovering from Typhoon Bopha, the Center was not able to hold its annual anniversary fundraising event which decreased donation and fundraising revenues by $53,610.

In fiscal year 2012, operating revenues increased by 0.49% ($673,546 in fiscal year 2012 versus $670,279 in fiscal year 2011) mainly due to increases in contractual service revenues by 394%, donations by 14%, facility user and admission fees by 22%, boat fee by 106% and accommodation by 56%. On the other hand, grants revenues decreased by 32% because most of the multi-projects were closing this fiscal year.

Operating expenses increased by 16% from $921,716 in fiscal year 2012 to $1,072,165 in fiscal year 2013. Personnel expenses (salaries, wages and fringe benefits) increased by 8% from $405,233 in fiscal year 2012 to $439,335 in fiscal year 2013 as a result of hiring a Business Manager and researchers. Notable increases in expenses include supplies and printing (85%), fuel (15%), communications (20%), travel (80%) and professional services (37%). Notable decreases in expenses include depreciation (1%), insurance (38%), anniversary (95%), training (11%) and dues and subscriptions (66%). The increase in operating costs is also attributed largely to an increase in merchandise cost (100%), repair and maintenance (144%) and utilities (2%). Most of the repair and maintenance included constructing new exhibits and signs and repairing existing exhibits aiming to make the aquarium more appealing and attractive.

Operating expenses decreased by 16% from $1,091,196 in fiscal year 2011 to $921,716 in fiscal year 2012. Personnel expenses (salaries, wages and fringe benefits) decreased by 11%, from $453,083 in fiscal year 2011 to $405,233 in fiscal year 2012 as a result of unfilled vacant positions. Notable decreases in expenses include communications (65%), supplies and printing (27%) and utilities (28%). There were increases in fuel (123%), repair and maintenance (79%) and other expenses (26%). The decrease in operating costs is also attributed largely to decreases in merchandise cost (15%), dues and subscriptions (62%) and anniversary (12%).

In fiscal year 2013, total operating loss decreased by $121,113 due to management's continued implementation of cost-cutting measures and an increase in fundraising activities such as grant writing proposals, accommodating researchers, etc. Changes implemented resulted in an increase in net position $128,610 greater than fiscal year 2012. Change in net position for fiscal year 2013 as compared to fiscal year 2012 improved by 115% from $111,692 in fiscal year 2012 to $240,302 in fiscal year 2013. As a result, total net position increased from $2,353,459 in fiscal year 2012 to $2,593,761 in fiscal year 2013.

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

In fiscal year 2012, total operating loss decreased by $175,831 due to a change in management and implementation of cost cutting measures to keep the Center from running out of funds. Changes implemented resulted in an increase in net position of $111,692. Change in net position for fiscal year 2012 as compared to fiscal year 2011 improved by 409% from $(36,177) in fiscal year 2011 to $111,692 in fiscal year 2012. As a result, total net position increased from $2,241,767 in fiscal year 2011 to $2,353,459 in fiscal year 2012.

A summary of operations, changes in net position and cash flows for the fiscal years ended September 30, 2013, 2012 and 2011 follows:

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013, 2012 and 2011

	2013	2012	Increase (Decrease) from 2012	2011
Operating revenues:				
Grants	$ 577,677	$ 270,040	114%	$ 394,622
Facility user and admission fees	92,521	111,826	-17%	91,750
Donations	44,523	66,656	-33%	58,629
Merchandise sales	35,125	23,884	47%	22,585
Fund raising	1,534	33,011	-95%	41,571
Contract service	69,700	103,179	-32%	20,899
Boat fee	28,712	27,097	6%	13,169
Accommodation	1,665	8,822	-81%	5,641
Research facilities	62,185	12,705	389%	5,609
Education program fee	13,966	6,455	116%	2,321
Other	26,154	9,871	165%	13,483
Total operating revenues	**953,762**	**673,546**	**42%**	**670,279**
(Bad debts) recoveries	(5,570)	3,084	-281%	-
	948,192	**676,630**	40%	**670,279**
Operating expenses:				
Salaries, wages and fringe benefits	439,335	405,233	8%	453,083
Depreciation	164,956	167,337	-1%	157,263
Utilities	93,062	90,879	2%	125,673
Donations to State governments	3,270	-	100%	103,550
Supplies and printing	72,517	39,276	85%	65,803
Professional services	82,339	60,135	37%	55,363
Travel	36,873	20,488	80%	17,007
Fuel	29,750	25,759	15%	11,545
Merchandise cost	25,019	12,536	100%	14,744
Insurance	9,698	15,714	-38%	14,167
Communications	9,102	7,578	20%	21,960
Anniversary	170	3,472	-95%	3,959
Repairs and maintenance	47,324	19,380	144%	6,121
Training	7,549	8,509	-11%	2,550
Dues and subscription	308	898	-66%	2,335
Entertainment	2,848	746	282%	1,174
Postage and freight	919	142	547%	262
Other	47,126	43,634	8%	34,637
Total operating expenses	**1,072,165**	**921,716**	**16%**	**1,091,196**
Operating loss	**(123,973)**	**(245,086)**	**-49%**	**(420,917)**
Nonoperating revenues (expenses):				
Appropriations	357,000	356,708	0%	387,000
Net increase in the fair value of investments	8,895	-	100%	-
Interest income and dividend income	938	70	1240%	105
Investment administration/management fee	(2,021)	-	-100%	-
Interest expense	(537)	-	-100%	(2,365)
Total nonoperating revenues (expenses), net	**364,275**	**356,778**	**2%**	**384,740**
Change in net position	**240,302**	**111,692**	**115%**	**(36,177)**
Net position at beginning of year	**2,353,459**	**2,241,767**	**5%**	**2,277,944**
Net position at end of year	**$ 2,593,761**	**$ 2,353,459**	**10%**	**$ 2,241,767**

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

Statements of Cash Flows
Years Ended September 30, 2013, 2012 and 2011

	2013	2012	Increase (Decrease) from 2012	2011
Cash flows from operating activities	$ (13,723)	$ (278,912)	-95%	$ (146,842)
Cash flows from noncapital financing activities	327,216	356,708	-8%	387,000
Cash flows from capital and related financing activities	(59,107)	(60,131)	-2%	(106,649)
Cash flows from investing activities	(160,075)	70	-228779%	(2,260)
Net increase in cash	**94,311**	**17,735**	**432%**	**131,249**
Cash at beginning of year	**290,035**	**272,300**	**7%**	**141,051**
Cash at end of year	**$ 384,346**	**$ 290,035**	**33%**	**$ 272,300**

OVERVIEW OF FINANCIAL POSITION

Total current assets increased by 65% in fiscal year 2013 over fiscal year 2012 ($864,053 versus $524,603), due mostly to a 51% increase in receivables at September 30, 2013 ($251,701 versus $166,650). Cash increased by 33% in fiscal year 2013 over fiscal year 2012 ($384,346 versus $290,035). Most grants are multi-year and $182,265 represents grant amounts that have been expended but not received in fiscal year 2013. The total assets increased by 8% in fiscal year 2013 over fiscal year 2012 ($2,766,499 versus $2,568,871).

Total current assets increased by 29% in fiscal year 2012 over fiscal year 2011 ($524,603 versus $405,622), due mostly to a 108% increase in receivables at September 30, 2012 ($213,206 versus $102,324). There are no ROP receivables in fiscal year 2012. Allotments from ROP were timely received. Cash increased by 7% in fiscal year 2012 over fiscal year 2011 ($290,035 versus $272,300). Most grants are multi-year and $142,345 represents grant amounts that have been expended but not received in fiscal year 2012. Due to a decreased, yet high rate of depreciation, total assets decreased by 1% in fiscal year 2012 over fiscal year 2011 ($2,568,871 versus $2,583,665).

Grant receipts are initially posted as deferred revenue waiting to be expensed as projects are implemented. Due to a change in policy, deferred revenue was reclassified to restricted net position resulting in an increase in change in net position of 115%. The Center strived to pay its debts and signed a note payable with the Palau Public Utilities Corporation (PPUC) for its outstanding electric bills. The balance of the note payable to PPUC at the end of fiscal year 2013 was $51,776 and $87,749 in fiscal year 2012. Total liabilities decreased by 20% during fiscal year 2013 from $215,412 in fiscal year 2012 to $172,738 in fiscal year 2013 and by 37% during fiscal year 2012 from $341,898 in fiscal year 2011 to $215,412 in fiscal year 2012.

As the Center continues to grow and operate, it incurs expenses and recognizes revenues as projects are implemented. As such, accounts payable increased by 109% ($49,906 versus $23,862) in fiscal year 2013 over fiscal year 2012 and decreased by 20% ($23,862 versus $29,819) in fiscal year 2012 over fiscal year 2011 and deferred revenue decreased by 100% ($-0- versus $29,979) in fiscal year 2013 over fiscal year 2012 and decreased by 75% ($29,979 versus $120,370) in fiscal year 2012 over fiscal year 2011.

Capital Assets

At September 30, 2013, 2012 and 2011, the Center had $1,902,446, $2,044,268, and $2,178,043, respectively, invested in capital assets, net of accumulated depreciation where applicable, including buildings, mechanical, electrical, research, office, exhibit and marine equipment, aquarium, furniture and fixtures, computers and vehicles, which represents a net decrease in fiscal year 2013 of $141,822 or 7% over fiscal year 2012 and $133,775 or 6% in fiscal year 2012 over fiscal year 2011. See note 5 to the financial statements for more information on the Center’s property, plant and equipment.

OVERVIEW OF FINANCIAL POSITION, CONTINUED

Long-Term Debt

At September 30, 2013 and 2012, the Center had $51,776 and $87,749, respectively, in long-term debt outstanding. See note 6 to the financial statements for more detailed information on the Center's long-term debt and changes therein.

A summary of the Center's statements of net position at September 30, 2013, 2012 and 2011 is shown below:

Statements of Net Position
September 30, 2013, 2012 and 2011

	2013	2012	Increase (Decrease) from 2012	2011
Current assets:				
Cash	$ 384,346	$ 290,035	33%	$ 272,300
Investments	167,350	-	100%	-
Receivables:				
Grantor agencies	182,265	142,345	28%	4,709
Receivable from Republic of Palau	29,784	-	100%	-
Other	91,630	70,861	29%	97,615
	303,679	213,206	42%	102,324
Less allowance for doubtful accounts	(51,978)	(46,556)	12%	(56,949)
Total receivables, net	251,701	166,650	51%	45,375
Inventories	53,662	62,642	-14%	84,248
Prepaid expense	6,994	5,276	33%	3,699
Total current assets	**864,053**	**524,603**	**65%**	**405,622**
Property, plant and equipment, net	1,902,446	2,044,268	-7%	2,178,043
Total assets	**$ 2,766,499**	**$ 2,568,871**	**8%**	**$ 2,583,665**
Current liabilities:				
Current portion of note payable	$ 23,897	$ 21,565	11%	$ 24,067
Accounts payable	49,906	23,862	109%	29,819
Deferred revenue	-	29,979	-100%	120,370
Accrued expenses	71,056	73,822	-4%	77,391
Total current liabilities	**144,859**	**149,228**	**-3%**	**251,647**
Note payable, net of current portion	27,879	66,184	-58%	90,251
Total liabilities	**172,738**	**215,412**	**-20%**	**341,898**
Net position:				
Invested in capital assets	1,902,446	2,044,268	-7%	2,178,043
Restricted	220,943	-	100%	-
Unrestricted	470,372	309,191	52%	63,724
Total net position	**2,593,761**	**2,353,459**	**10%**	**2,241,767**
Total liabilities and net position	**$ 2,766,499**	**$ 2,568,871**	**8%**	**$ 2,583,665**

ECONOMIC OUTLOOK

The Center's role in the region and internationally continues to increase as it continues to face global challenges such as climate change. As the only research facility in the region, this gives the Center the market niche to grow and potentially bring in more funds. Both the Micronesia Conservation Trust and the Nature Conservancy are committed to supporting the Center in providing technical and scientific support to the Micronesia Challenge. Through this new role, it has opened up new opportunities internationally. Furthermore, in 2013, the Center continued to receive more requests from researchers, volunteers and interns internationally to house/host different research projects and was contracted to conduct different research regionally.

ECONOMIC OUTLOOK, CONTINUED

A very positive outlook for the Center is its agreement with the Government of Japan, through the Japan International Cooperation Agency (JICA), that implemented the Capacity Enhancement Project for Coral Reef Monitoring (CEPCM) which was completed in 2011. For the new project, the Center and the University of Ryukyus have been awarded a competitive grant from Science and Technology Research Partnership for Sustainable Development (SATREPS). Supported by two Japanese government agencies, Japan Science and Technology Agency and JICA, SATREPS is a Japanese government program that promotes international joint research targeting global issues. Its core component is collaboration with other countries, stemming from the basic fact that global challenges cannot be met by a single country or region acting on its own. SATREPS works through three to five-year projects involving partnerships between researchers in Japan and researchers in another country, with a prominent focus on two primary outcomes: enhanced research capacity and scientific data that have potential for practical utilization.

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in the Center's report on the audit of financial statements, which is dated May 31, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Center's finances and to demonstrate the Center's accountability for the money it receives. If you have questions about this report, or need additional information, please contact the Chief Executive Officer at the Palau International Coral Reef Center, P.O. Box 7086, Koror, Palau 96940, or e-mail ygolbuu@picrc.org or call 488-6950.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Net Position
September 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash	$ 384,346	$ 290,035
Investments	167,350	-
Receivables:		
Grantor agencies	182,265	142,345
Receivable from Republic of Palau	29,784	-
Other	91,630	70,861
	303,679	213,206
Less allowance for doubtful accounts	(51,978)	(46,556)
Total receivables, net	251,701	166,650
Inventories	53,662	62,642
Prepaid expense	6,994	5,276
Total current assets	864,053	524,603
Property, plant and equipment, net	1,902,446	2,044,268
	$ 2,766,499	$ 2,568,871

LIABILITIES AND NET POSITION	2013	2012
Current liabilities:		
Current portion of note payable	$ 23,897	$ 21,565
Accounts payable	49,906	23,862
Deferred revenue	-	29,979
Accrued expenses	71,056	73,822
Total current liabilities	144,859	149,228
Note payable, net of current portion	27,879	66,184
Total liabilities	172,738	215,412
Net position:		
Invested in capital assets	1,902,446	2,044,268
Restricted	220,943	-
Unrestricted	470,372	309,191
Total net position	2,593,761	2,353,459
	$ 2,766,499	$ 2,568,871

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Grants	$ 577,677	$ 270,040
Facility user and admission fees	92,521	111,826
Contract service	69,700	103,179
Research facilities	62,185	12,705
Donations	44,523	66,656
Merchandise sales	35,125	23,884
Boat fee	28,712	27,097
Education program fee	13,966	6,455
Accomodation	1,665	8,822
Fund raising	1,534	33,011
Other	26,154	9,871
Total operating revenues	953,762	673,546
(Bad debts) recoveries	(5,570)	3,084
	948,192	676,630
Operating expenses:		
Salaries, wages and fringe benefits	439,335	405,233
Depreciation	164,956	167,337
Utilities	93,062	90,879
Professional services	82,339	60,135
Supplies and printing	72,517	39,276
Repairs and maintenance	47,324	19,380
Travel	36,873	20,488
Fuel	29,750	25,759
Merchandise cost	25,019	12,536
Insurance	9,698	15,714
Communications	9,102	7,578
Training	7,549	8,509
Donations to State governments	3,270	-
Entertainment	2,848	746
Postage and freight	919	142
Dues and subscriptions	308	898
Anniversary	170	3,472
Other	47,126	43,634
Total operating expenses	1,072,165	921,716
Operating loss	(123,973)	(245,086)
Nonoperating revenues (expenses):		
Appropriations	357,000	356,708
Net increase in the fair value of investments	8,895	-
Interest and dividend income	938	70
Investment administration/management fee	(2,021)	-
Interest expense	(537)	-
Total nonoperating revenues (expenses), net	364,275	356,778
Change in net position	240,302	111,692
Net position at beginning of year	2,353,459	2,241,767
Net position at end of year	$ 2,593,761	$ 2,353,459

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 870,208	$ 484,993
Cash payments to suppliers for goods and services	(441,830)	(355,103)
Cash payments to employees for services	(442,101)	(408,802)
Net cash used for operating activities	(13,723)	(278,912)
Cash flows from noncapital financing activities:		
Appropriations	327,216	356,708
Net cash provided by noncapital financing activities	327,216	356,708
Cash flows from capital and related financing activities:		
Property, plant and equipment acquisitions	(23,134)	(33,562)
Payments on note payable	(35,973)	(26,569)
Net cash used for capital and related financing activities	(59,107)	(60,131)
Cash flows from investing activities:		
Purchase of investments	(159,563)	-
Interest payments	(537)	-
Interest received	25	70
Net cash (used for) provided by investing activities	(160,075)	70
Net increase in cash	94,311	17,735
Cash at beginning of year	290,035	272,300
Cash at end of year	$ 384,346	$ 290,035
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (123,973)	$ (245,086)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	164,956	167,337
Bad debts (recoveries)	5,570	(3,084)
(Increase) decrease in assets:		
Receivables grantor agencies	(39,920)	(137,636)
Receivables, other	(20,917)	19,445
Inventories	8,980	21,606
Prepaid expense	(1,718)	(1,577)
Increase (decrease) in liabilities:		
Accounts payable	26,044	(5,957)
Deferred revenue	(29,979)	(90,391)
Accrued expenses	(2,766)	(3,569)
Net cash used for operating activities	$ (13,723)	$ (278,912)

See accompanying notes to financial statements.

(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 ROP Public Law (RPPL) 5-17. The Law created a wholly owned government non-profit corporation managed by a Board of Directors appointed by the President of ROP with the advice and consent of the Senate of the Olbiil Era Kelulau (ROP National Congress). The primary purpose of the Center is to carry out marine research and educate the public about the ecological, economic and cultural importance of coral reefs and their associated marine habitats.

The Center's financial statements are incorporated into the financial statements of ROP as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of the Center conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. The Center utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statement of net position. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

Cash

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 — Deposits that are federally insured or collateralized with securities held by the Center or its agent in the Center's name;

Category 2 — Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Center's name; or

Category 3 — Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Center's name and non-collateralized deposits.

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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, 2013 and 2012, cash was $384,346 and $290,035, respectively, and the corresponding bank balances were $393,974 and $291,449, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2013 and 2012, bank deposits of $258,162 and $291,449 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 $8,163 and $155,824 and investments of $167,350 and $-0- have been internally restricted as of September 30, 2013 and 2012, respectively. These restricted funds consist of solicited donations and a portion of operating revenues designated by the Board.

Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by the Center or its agent in the Center's name;

Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in the Center's name; or

Category 3 Investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Center's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

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.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

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, 2013, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Center's total investments:

Fixed income securities:	
Federal National Mortgage Association	13%
U.S. Treasury Note	6%
Exchange-traded and closed-end funds:	
Ishares Iboxx Investment Grade Corporate Bond	8%
Ishares Intermediate Credit Bond ETF	8%

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

General:

1. Any pertinent restrictions existing under the laws of ROP with respect to the Center, that may exist now or in the future, will be the governing restriction.

2. U.S. and non-U.S. equities, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.

3. No individual security of any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of Investment Manager's portfolio.

4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.

5. Investments in a registered mutual fund managed by the Investment Manager are subject to the prior approval of the Board of Directors.

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 sales; and margin transactions.

Investments may be made in:

A. Equity Investments

    1. Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive relative to the economic or industry sector allocations of the individual index benchmarks set for each Investment Manager.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

A. Equity Investments, Continued

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.

C. Cash and Cash Equivalents

1. Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or their equivalent. U.S. Treasury and agency securities, bankers acceptances, certificates of deposit, and collateralized repurchase agreements are also acceptable investment vehicles. Custodial sweep accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.

2. In the case of certificates of deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than $10,000,000 in assets may not be made in excess of $100,000 (or prevailing FDIC insurance limit), unless the deposit is fully collateralized by U.S. Treasury securities.

3. No single issue shall have a maturity of greater than two (2) years.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

C. Cash and Cash Equivalents, Continued

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, 2013.

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 31. The Center's investments as of September 30, 2013 are as follows:

Investment Type	Fair Value
Cash and money market funds	$ 5,401
Common stocks	100,611
Exchange-traded and closed-end funds	30,009
Fixed income securities	31,329
	$ 167,350

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.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is established through a provision charged to expense. Specific accounts are charged against the allowance when management believes that the collection of the balance is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing balances that may be uncollectible, based on evaluations of collectability and prior loss experience. Bad debts are written-off against the allowance 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.

(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.

Deferred Revenue

Deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned.

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 ROP. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Palau 96940.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of ROP, ROP State Governments and ROP 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. The Center contributed $21,134, $29,996 and $23,411 to the Fund during the fiscal years 2013, 2012 and 2011, respectively, which were equal to the required contributions for each year.

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, 2013 and 2012 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 7.5% 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, 2011 actuarial valuation determined the unfunded pension benefit obligation as follows:

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

Active participants	$ 74,716,975
Participants in pay status	62,987,516
Participants with vested deferred benefits	2,323,366
Total pension benefit obligation	140,027,857
Net assets available for benefits, at market value	36,128,666
Unfunded benefit obligation	$ 103,899,191

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

Compensated Absences

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses include all direct and administrative revenues and expenses. Non-operating revenues and expenses result from investing and financing activities including operating grants.

Net Position

The Center's net position is classified as follows:

- Invested in capital assets: capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

- 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.

- 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.

New Accounting Standards

During the year ended September 30, 2013, the Center implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, which* addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, which* improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity, and No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities, which* clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Center.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans, which* revises existing guidance for the financial reports of most pension plans, *and Statement N*o. 68, *Accounting and Financial Reporting for Pensions, which* revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Center.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Center.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Center.

Reclassifications

Certain 2012 balances in the accompanying financial statements have been reclassified to conform to the 2013 presentation.

(3) Due From Grantor Agencies

The Center is a direct recipient of a contract award received from the David and Lucile Packard Foundation, the United Nations Educational, Scientific, and Cultural Organization, Micronesia Conservation Trust, the University of New Hampshire, the University of South Pacific and the University of Hawaii. 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, 2013 and 2012 are as follows:

	2013	2012
Balance at beginning of year	$ 142,345	$ 4,709
Deductions - cash receipts from grantor agency	(507,778)	(52,173)
Additions - program outlays	577,677	280,200
Decrease in deferred revenue	(29,979)	(90,391)
Balance at end of year	$ 182,265	$ 142,345

(4) Inventories

Inventories as of September 30, 2013 and 2012, consist of the following:

	2013	2012
Spare parts	$ 37,092	$ 41,700
Merchandise	16,570	20,942
	$ 53,662	$ 62,642

(5) Property, Plant and Equipment

Property, plant and equipment as of September 30, 2013 and 2012, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013
Buildings	10 - 30 years	$ 3,694,915	$ -	$ (5,243)	$ 3,689,672
Mechanical, electrical, research, office, exhibit and marine equipment	2 - 15 years	1,602,201	8,194	(146,054)	1,464,341
Aquarium	7 years	1,591,934	-	-	1,591,934
Furniture and fixtures	5 years	155,323	2,250	(75,760)	81,813
Computers	5 years	22,768	-	(7,695)	15,073
Vehicles	3 years	130,467	12,690	(69,247)	73,910
		7,197,608	23,134	(303,999)	6,916,743
Less accumulated depreciation		(5,153,340)	(164,956)	303,999	(5,014,297)
		$ 2,044,268	$ (141,822)	$ -	$ 1,902,446

	Estimated Useful Lives	Balance at October 1, 2011	Additions	Deletions	Balance at September 30, 2012
Buildings	10 - 30 years	$ 3,674,115	$ 20,800	$ -	$ 3,694,915
Mechanical, electrical, research, office, exhibit and marine equipment	2 - 15 years	2,140,207	3,150	(541,156)	1,602,201
Aquarium	7 years	1,588,537	3,397	-	1,591,934
Furniture and fixtures	5 years	177,590	-	(22,267)	155,323
Computers	5 years	91,952	-	(69,184)	22,768
Vehicles	3 years	126,752	6,215	(2,500)	130,467
		7,799,153	33,562	(635,107)	7,197,608
Less accumulated depreciation		(5,621,110)	(167,337)	635,107	(5,153,340)
		$ 2,178,043	$ (133,775)	$ -	$ 2,044,268

(6) Note Payable

	2013	2012
Note payable to the Palau Public Utilities Corporation (PPUC, a related party), non-interest bearing, due over thirty-two months beginning March 2013, with a fixed monthly payment of $1,991.	$ 51,776	$ 87,749
Less current installment	(23,897)	(21,565)
Long-term debt	$ 27,879	$ 66,184

Total future repayments for the years ending September 30 are as follows:

Years ending	
2014	$ 23,897
2015	23,896
2016	3,983
	$ 51,776

(6) Note Payable, Continued

Changes in note payable for the years ended September 30, 2013 and 2012, are as follows:

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
PPUC	$ 87,749	$ -	$ (35,973)	$ 51,776	$ 23,897

	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012	Due Within One Year
PPUC	$ 114,318	$ -	$ (26,569)	$ 87,749	$ 21,565

(7) Republic of Palau

During the years ended September 30, 2013 and 2012, the Center recorded appropriations for operations of $357,000 through RPPL 9-5 and $356,708 through RPPL 8-40, respectively. As of September 30, 2013 and 2012, receivables from ROP for uncollected appropriations are $29,784 and $-0-, 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.

(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 during the past three years.

PALAU INTERNATIONAL CORAL REEF CENTER

Schedule of Investments
September 30, 2013

Cash and Money Market Funds	Cost	Fair Value
Cash	$ 138	$ 138
Morgan Stanley Sicav US$ Liq	5,263	5,263
Total Cash and Money Market Funds	5,401	5,401
Equities		
Common Stock		
Ace Ltd	995	1,029
Allstate Corp	2,334	2,477
Amazon Com Inc	1,681	1,876
Amer Intl Gp Inc	2,243	2,675
American Express Co	1,880	2,190
American Tower Reit Com	1,158	1,112
Amerisourcebergen Corp	919	1,039
Anadarko Pete	1,868	1,953
Bank of America Corp	1,713	1,822
Biogen Idec Inc	864	1,204
Boeing Co	3,762	4,700
CDN Pacific Ry Ltd	2,278	2,219
Celgene Corp	2,534	3,391
Charles Schwab	1,114	1,332
Chevron Corp	1,909	1,944
Cisco Sys Inc	2,185	2,273
Citigroup Inc	3,791	3,832
CME Group Inc.	919	886
Comcast Corp Class A	1,881	2,075
CVS Caremark Corp	1,573	1,702
Ebay Inc	1,427	1,506
EMC Corp Mass	1,284	1,355
Express Scripts Hldg Co Com	1,468	1,545
General Electric Co	1,941	1,983
General Mtrs Co	2,338	2,770
Gilead Science	1,907	2,640
Goldman Sachs Grp Inc	2,298	2,373
Google Inc-CL A	4,190	4,379
Halliburton Co	2,170	2,504
Home Depot Inc	2,993	3,186
Johnson & Johnson	1,351	1,474
JPMorgan Chase & Co	3,976	4,083
Las Vegas Sands Corporation	1,445	1,727
Liberty Global Plc CL A	996	1,111
Lowes Companies Inc	1,006	1,190
Marsh & Mclennan Cos Inc	924	1,089
Mastercard Inc CL A	1,591	2,018
News Corporation CL A	939	1,012
Pfizer Inc	2,394	2,442
Precision Castparts Corp	1,580	1,818
Schlumberger Ltd	2,837	3,181
TE Connectivity Ltd	976	984
Texas Instruments	948	967
Twenty-First Century Fox CL A	2,672	3,317
Union Pacific Corp	1,947	2,175
United Technologies Corp	2,884	3,342
Walt Disney Co Hldg Co	2,413	2,709
Total Common Stock	90,496	100,611

See Accompanying Independent Auditors' Report.

Schedule of Investments
September 30, 2013

Equities, Continued	Cost	Fair Value
Exchange-Traded and Closed-End Funds		
Ishares Iboxx Invest Gr Cor Bd	13,883	13,282
Ishares Interm Credit Bd Etf	13,705	13,383
Ishares S&P US Pfd Stk Idx Fd	3,521	3,344
Total Exchange-Traded and Closed-End Funds	31,109	30,009
Total Equities	121,605	130,620
Fixed Income Securities		
Government Securities		
United States Treasury Note @ 0.250%, due 10/31/14	10,009	10,022
Fed Natl Mtg Assn @ 1.250%, due 09/28/16	21,427	21,307
Total Government Securities	31,436	31,329
Total Fixed Income Securities	31,436	31,329
Total Cash, Money Market Funds, Equities and Fixed Income Securities	$ 158,442	$ 167,350

See Accompanying Independent Auditors' Report.