

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

September 30, 2019 and 2018

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

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September 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau International Coral Reef Center:

Report on the Financial Statements

We have audited the accompanying financial statements of net position of Palau International Coral Reef Center (the Center), a component unit of the Republic of Palau, as of September 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

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.

Auditors' 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 audit 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.

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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, 2019 and 2018, 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 (MD&A) on pages 4 through 10, the Schedule of Proportional Share of the Net Pension Liability on page 38, and the Schedule of Pension Contributions on page 39 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. 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 Financial Information

Our audits were conducted for the purpose of forming an opinion on the Center's basic financial statements as a whole. The Schedule of Investments as of September 30, 2019 on page 40 is presented for purposes of additional analysis and are not required part of the financial statements. The Schedule of Investments is the responsibility of management and was derived from and relates 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 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 taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2021 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing on internal controls 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* in considering the Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Benji Comen Maglian". The signature is written in a cursive style.

Koror, Republic of Palau
January 14, 2021



PALAU INTERNATIONAL CORAL REEF CENTER

Management's Discussion and Analysis
Fiscal Year Ended September 30, 2019

This Management's Discussion and Analysis of the Palau International Coral Reef Center (the Center) provides an overview of the financial activities and performance of the Center for the fiscal year ended September 30, 2019, with selected comparative information for the fiscal years ended September 30, 2019 and 2018.

ORGANIZATION AND MISSION

The Center was created by Republic of Palau Public Law (RPPL) 5-17 in November 1998 as a public, nonprofit coral reef research, education and training center. It is a public corporation owned by the Republic of Palau. The Center has a governing board of directors, nine of whom are appointed by the President and approved by the Senate of the Olbiil era Kelulau and three are ex-officio members. The Minister of Finance, Minister of Natural Resources, Environment, and Tourism, and the Chief Executive Officer of PICRC are board members by virtue of their positions.

The mission of the Center is to guide efforts supporting coral reef stewardship through research and its applications for the people of Palau, Micronesia and the world. The Center was established to support management, wise-use and conservation of Palau and the world's marine environment. In addition, the Center's aquarium, which highlights Palau's unique marine ecosystems and organisms living in those ecosystems, serve as a direct educational tool and a tourism attraction.

The Republic of Palau (ROP) received funding of US \$7.3 million from the Government of Japan for the construction of the Center. The construction commenced in November 1999 and the facility opened in January 2001. Located on an 8,248 square meter pier, the Center features three main buildings: a research facility, visitor education and awareness exhibit areas, and an administration complex. At this time, the Center is adding a new building that will house offices and apartments.

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

In September 2006, the Center developed and adopted Strategic Plan 2007-2012, which focused on the five program areas. In November 2012, the Center adopted a five-year Strategic Plan 2013-2017 with a clear vision, core values and a mission statement. The fiscal year the Board adopted a five-year Strategic Plan 2018-2022 with a new set goal and objectives.

VISION

People empowered with Science and Knowledge for Effective Marine Conservation and Management.

MISSION STATEMENT

To guide efforts supporting coral reef stewardship through research and its applications for the people of Palau, Micronesia, and the World.

CORE VALUES

The Center is guided by the following core values:

1. We believe in working together in a spirit of cooperation, teamwork and partnership both within the Center and with external partners.
2. We achieve meaningful results through hard work focus and effective application of our knowledge and skills.
3. We are reliable and consistent, providing excellent service to our guests, clients and partners.
4. We deliver quality information and objective and innovative science in order to support sound resource management decisions and actions.
5. We are visionaries, pursuing and adapting to important trends and opportunities.
6. We invest in people and learning, creating a nurturing environment for our staff and partners and promoting cultural awareness and sensitivity, community well-being and the application of traditional knowledge.

FINANCIAL STATEMENTS

The financial statements of the Center are prepared following the provisions of the Governmental Accounting Standards Board and in compliance with accounting principles generally accepted in the United States of America as applied to governmental entities and proprietary funds. The flow of economic resources measurement focus is used as the basis of accounting for proprietary funds in which the statement of net position includes all assets and liabilities associated with the operation of the fund. The accrual basis of accounting is the method used to record revenues when earned and expenses when incurred.

OVERVIEW OF FINANCIAL OPERATIONS

In fiscal year 2019, operating revenues increased \$875,881 or 94% (\$1,599,594 in fiscal year 2019 versus \$932,467 in fiscal year 2018), mainly due to an increase in grant revenues by \$692,111 due to more grant payments received in Fiscal Year 2019. Other increases were in research facilities by 294%, other revenues by 271% and contract services by 21%. On the other hand, the following were decreased in FY 2019, fundraising (31%), merchandise sales (14%), boat fees (12%), donations (9%), and accommodation (7%).

In fiscal year 2018, operating revenues decreased by 21% (\$932,467 in fiscal year 2018 versus \$1,179,814 in fiscal year 2017) mainly due to decrease in grant revenues by 85% due to less grant payments received in Fiscal Year 2018. Other decrease was research facilities by 75, donations by 9% and merchandise sales by 6%. On the other hand, the following were increased in FY 2018, facility and admissions fees (51%), fundraising (213%), contract service (14%), boat fees (88%), accommodation (17%), and other income (58%). The increase was mainly due to more guests using the Center's facilities to conduct research and/or meetings and the utilization of the new building that have 6 single studios, 3 office, and 80 capacity conference room.

Operating expense increased by 5% (\$1,804,882 in fiscal year 2019 versus \$1,712,839 in fiscal year 2018). Salaries and wages increased by 7% mainly due various salary increments and increased unfunded pension expenses in FY 2019, Utilities increased by 29% due increased power rates and consumption, Travel by 151% due to sending research personnel to attend conferences, and other expenses due to various operating costs combined for reporting purposes. Notable decreases in expenses includes Professional Services (64%), Training (31%), Communications (29%), Fuel (24%), Depreciation (16%), Repairs and Maintenance (5%), and Merchandise Cost (2%).

Government appropriations remained at the same level in fiscal year 2019 of \$400,000 in fiscal year 2018. Fair value of investments increased by 11% from \$21,973 in fiscal 2018 to \$42,959 in fiscal year 2019. Net income before capital contributions increased to \$446,425 as compared to net loss of (\$359,951) for fiscal year 2018 and a net loss of (\$158,639) in fiscal year 2017. The current year increase directly attributable to increased grant revenues totaling \$692,111 and increased contract services of \$34,380. As a result, Net position increased by \$446,425 or 33% from \$1,368,872 to \$1,815,297.

A summary of operations, changes in net position and cash flows for the fiscal years ended September 30, 2019, 2018 and 2017 follows:

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019, 2018 and 2017**

	2019	2018	Increase (Decrease) 2019	2017
Operating revenues:				
Grants	\$ 747,763	\$ 55,652	1243.64%	\$ 359,345
Facility user and admission fees	277,181	253,714	9.25%	168,523
Research facilities	128,004	32,460	294.34%	128,877
Fundraising	11,310	16,300	(30.61%)	5,200
Contract service	201,309	166,929	20.60%	146,601
Boat fees	79,864	91,157	(12.39%)	48,561
Merchandise sales	38,718	44,866	(13.70%)	47,677
Accomodations	44,131	47,555	(7.20%)	40,499
Donations	178,736	196,510	(9.04%)	216,961
Education program fee	-	-	0.00%	325
Other	101,332	27,324	270.85%	17,245
Total operating revenues	1,808,348	932,467	(93.93%)	1,179,814
Bad debts	-	(1,552)	(100.00%)	(8,081)
	<u>\$ 1,808,348</u>	<u>\$ 930,915</u>	94.25%	<u>\$ 1,171,733</u>

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

Statements of Revenues, Expenses and Changes in Net Position Years Ended September 30, 2019, 2018 and 2017

	2019	2018	Increase (Decrease) 2019	2017
Operating expenses:				
Salaries, wages and fringe benefits	\$ 813,117	\$ 761,405	6.79%	\$ 693,118
Depreciation	233,798	276,772	(15.53%)	293,084
Supplies and printing	151,667	146,461	3.55%	167,405
Utilities	123,941	96,080	29.00%	96,641
Professional services	51,710	142,178	(63.63%)	133,632
Fuel	25,061	33,167	(24.44%)	32,827
Merchandise cost	28,570	29,035	(1.60%)	56,057
Training	12,859	18,514	(30.54%)	27,802
Insurance	19,213	17,829	7.76%	24,632
Repairs and maintenance	20,965	22,181	(5.48%)	41,912
Communications	15,569	22,032	(29.33%)	24,501
Anniversary	22,683	19,709	15.09%	5,864
Travel	45,742	18,234	150.86%	7,578
Postage and freight	51,790	3,063	1590.83%	3,227
Dues and subscriptions	15,586	1,610	868.07%	10,014
Entertainment	3,113	597	421.44%	3,519
Rentals	10	20	(50.00%)	75
Sales and Marketing	591	2,401	(75.39%)	4,589
Other	168,897	101,551	66.32%	131,851
Total operating expenses	<u>1,804,882</u>	<u>1,712,839</u>	(5.37%)	<u>1,758,328</u>
Operating loss	<u>3,466</u>	<u>(781,924)</u>	100.44%	<u>(586,595)</u>
Nonoperating revenues:				
Appropriations	400,000	400,000	0.00%	400,000
Net increase in the fair value of investments	<u>42,959</u>	<u>21,973</u>	95.51%	<u>27,956</u>
Total nonoperating revenues	<u>442,959</u>	<u>421,973</u>	4.97%	<u>427,956</u>
Net income (loss) before capital contributions	446,425	(359,951)	224.02%	(158,639)
Capital contributions	<u>-</u>	<u>-</u>	0.00%	<u>-</u>
Change in net position	446,425	(359,951)	224.02%	(158,639)
Net position at beginning of year	<u>1,368,872</u>	<u>1,728,823</u>	(20.82%)	<u>1,887,462</u>
Net position at end of year	<u>\$ 1,815,297</u>	<u>\$ 1,368,872</u>	32.61%	<u>\$ 1,728,823</u>

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

Statements of Cash Flows Years Ended September 30, 2019, 2018 and 2017

	2019	2018	Increase (Decrease) 2019	2017
Net cash provided by (used for) operating activities	\$ 133,565	\$ (335,959)	139.76%	\$ (117,842)
Net cash provided by noncapital financing activities	400,000	400,000	0.00%	400,000
Net cash used for capital and related financing activities	(27,772)	(382,095)	92.73%	(100,000)
Net cash provided by (used for) investing activities	-	-	0%	(132,925)
Net increase in cash	505,793	(318,054)	259.03%	49,233
Cash at beginning of year	855,996	1,174,030	(27.09%)	1,124,797
Cash at end of year	<u>\$ 1,361,789</u>	<u>\$ 855,976</u>	59.09%	<u>\$ 1,174,030</u>

OVERVIEW OF FINANCIAL POSITION

Total current assets increased by \$768,183 or 54% in fiscal year 2019 over fiscal year 2018 (\$2,184,510 versus \$1,416,327), due mostly to an increase of \$177,298 in other receivables September 30, 2019 (\$189,895 versus \$12,597 in 2018), and cash increased by 59% or \$505,793. Grant receivables increased by \$44,326 or 29%. As a result, total assets increased by \$562,157 or 17% in fiscal year 2019 over fiscal year 2018. A decrease in deferred outflow of resources from pension in fiscal 2019 over fiscal 2018 totaled \$168,623 or by 27%.

Total current assets decreased by 22% in fiscal year 2018 over fiscal year 2017 (\$1,416,327 versus \$1,811,810), due mostly to 4% decrease in grant receivables at September 30, 2018 (\$153,826 versus \$160,550), and cash decreased by 27%. Other Receivables decreased by 88% and prepaid expense increased by 19% in fiscal year 2018 over fiscal year 2017. Total assets decreased by 8% in fiscal year 2018 over fiscal year 2017 (\$3,391,597 versus \$3,681,857). An increase in deferred outflow of resources from pension in fiscal 2018 over fiscal 2017 by 13%.

Total current liabilities increased by \$41,792 or 53% primarily due an increase in accounts payable of \$41,792 or 404% over fiscal year 2018.

Capital Assets

At September 30, 2019, 2018 and 2017, the Center had \$1,769,244, \$1,975,270, and \$1,869,946, 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 2019 of \$206,026 or 10% over fiscal year 2018.

Long-Term Liabilities

At September 30, 2019, the Center had a notable decrease in its Net Pension Liability of \$199,584 or 10% as compared to fiscal year 2018. In 2019 and 2018, the Center had \$1,898,628 and \$2,098,21 respectively, in net Pension liabilities. See Notes to the financial statements for more detailed information on the net Pension liabilities and deferred inflows of resources from Pension and new accounting standards.

A summary of the Center's statements of net position at September 30, 2019, 2018 and 2017 is shown below:

**Statements of Net Position
September 30, 2019, 2018 and 2017**

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>	Increase (Decrease) from 2019	<u>2017</u>
Current assets:				
Cash	\$ 1,361,789	\$ 855,996	59%	\$ 1,174,030
Investments	424,772	381,813	11%	359,841
Receivables:				
Grantor agencies	198,152	153,826	29%	160,550
Other	189,895	12,597	1407%	107,665
	<u>388,047</u>	<u>166,423</u>	133%	<u>268,215</u>
Less allowance for doubtful accounts	<u>(14,731)</u>	<u>(14,731)</u>	0%	<u>(14,731)</u>
Total receivables, net	<u>373,316</u>	<u>151,692</u>	146%	<u>253,484</u>
Inventories	<u>16,278</u>	<u>18,471</u>	(12%)	<u>17,553</u>
Prepaid expense	<u>8,355</u>	<u>8,355</u>	0%	<u>7,002</u>
Total current assets	2,184,510	1,416,327	54%	1,811,910
Property, plant and equipment, net	<u>1,769,244</u>	<u>1,975,270</u>	(10%)	<u>1,869,947</u>
Total Assets	3,953,754	3,391,597	17%	3,681,857
Deferred outflows of resources from Pension	<u>453,551</u>	<u>622,174</u>	(27%)	<u>551,926</u>
Total assets and deferred outflows of resources	<u>\$ 4,407,305</u>	<u>\$ 4,013,771</u>	10%	<u>\$ 4,233,783</u>
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Accounts payable	\$ 52,124	\$ 10,332	404%	\$ 49,905
Accrued expenses	<u>76,320</u>	<u>73,387</u>	4%	<u>59,696</u>
Total current liabilities	128,444	83,719	53%	109,601
Net pension liabilities	<u>1,898,628</u>	<u>2,098,212</u>	(10%)	<u>2,078,159</u>
Total liabilities	<u>2,027,072</u>	<u>2,181,931</u>	(7%)	<u>2,187,760</u>
Deferred inflows of resources from Pension	564,936	462,968	22%	317,200
Total liabilities and deferred inflows of resources	2,592,008	2,644,899	(2%)	2,504,960
Net position:				
Invested in capital assets	1,769,244	1,975,270	(10%)	1,869,947
Restricted	521,858	11,420	4470%	92,477
Unrestricted	<u>(475,805)</u>	<u>(617,818)</u>	(23%)	<u>(233,601)</u>
Total net position	<u>1,815,297</u>	<u>1,368,872</u>	33%	<u>1,728,823</u>
Total liabilities and deferred inflows of resources and net position	<u>\$ 4,407,305</u>	<u>\$ 4,013,771</u>	10%	<u>\$ 4,233,783</u>

ECONOMIC OUTLOOK

As the world continue to face the issue on climate change, fisheries, and depleted natural resources PICRC continues to play a vital role within Palau, Micronesia and the world as the only research facility within Palau and Micronesia that is equipped to conduct various research activities. This fiscal year, the Center experience a significant drop in its revenues because of the COVID-19 pandemic and the closure of our borders to all visitors. But with the closure, the research work continued uninterrupted.

The Center's researchers continue to reach out to different stakeholders from local communities, and attend various international meetings and more research publication are published in peer journal reviews has helped promote the Center's facilities within Palau and around the world.

Finally, the results of the research activities are very well communicated to the various supporters in which continues to increase the level of support to the Center not just monetary but volunteers and in-kind donation.

With the lack of tourists, the Center focused on updating and upgrading the Aquarium facilities, including several new displays. Once Palau open its borders, we anticipate more interest in the aquarium because of all the improvement that have been made. The Center will continue to work with Palau Visitors Authority to seek ways to bring more visitors to the Aquarium. Furthermore, the Center continues to develop different promotional packages to attract more tourist to the Aquarium.

While tourism will take a while to recover once the borders are open, the Center should be able to resume its full research operations once the borders open and researchers outside of Palau start coming to Palau to conduct their research. Many researchers have put their research on hold because of COVID-19, but will be ready to start once the borders open and their universities allow them to travel. So, we anticipate our revenues from research to be back to normal by the middle of FY 2021, once the travel resumes.

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in the Center's report on the audit of financial statements, which is dated January 14, 2021. That discussion and analysis explains the major factors impacting the 2018 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

(A Component Unit of the Republic of Palau)

Statements of Net Position
September 30, 2019 and 2018

<u>ASSETS AND</u> <u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash	\$ 1,361,789	\$ 855,996
Investments	424,772	381,813
Receivables:		
Grantor agencies	198,152	153,826
Other	189,895	12,597
	<u>388,047</u>	<u>166,423</u>
Less allowance for doubtful accounts	(14,731)	(14,731)
Total receivables, net	<u>373,316</u>	<u>151,692</u>
Inventories	16,278	18,471
Prepaid expense	8,355	8,355
Total current assets	<u>2,184,510</u>	<u>1,416,327</u>
Capital assets, net	<u>1,769,244</u>	<u>1,975,270</u>
Total assets	3,953,754	3,391,597
Deferred outflows of resources from pension	<u>453,551</u>	<u>622,174</u>
Total assets and deferred outflows of resources	<u>\$ 4,407,305</u>	<u>\$ 4,013,771</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u> <u>AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 52,124	\$ 10,332
Accrued expenses	76,320	73,387
Deferred revenues	-	-
Total current liabilities	<u>128,444</u>	<u>83,719</u>
Net pension liability	<u>1,898,628</u>	<u>2,098,212</u>
Total liabilities	2,027,072	2,181,931
Deferred inflows of resources from pension	<u>564,936</u>	<u>462,968</u>
Total liabilities and deferred inflows of resources	<u>2,592,008</u>	<u>2,644,899</u>
Net position:		
Invested in capital assets	1,769,244	1,975,270
Restricted	521,858	11,420
Unrestricted	(475,805)	(617,818)
Total net position	<u>1,815,297</u>	<u>1,368,872</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,407,305</u>	<u>\$ 4,013,771</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

(A Component Unit of the Republic of Palau)

Statements of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Grants	\$ 747,763	\$ 55,652
Facility user and admission fees	277,181	253,714
Contract service	201,309	166,929
Donations	178,736	196,510
Research facilities	128,004	32,460
Boat fees	79,864	91,157
Accommodations	44,131	47,555
Merchandise sales	38,718	44,866
Fundraising	11,310	16,300
Other	<u>101,332</u>	<u>27,324</u>
Total operating revenues	1,808,348	932,467
Bad debts	<u>-</u>	<u>(1,552)</u>
	<u>1,808,348</u>	<u>930,915</u>
Operating expenses:		
Salaries, wages and fringe benefits	813,117	761,405
Depreciation	233,798	276,772
Supplies and printing	151,667	146,461
Utilities	123,941	96,080
Postage and freight	51,790	3,063
Professional services	51,710	142,178
Travel	45,742	18,234
Merchandise cost	28,570	29,035
Fuel	25,061	33,167
Anniversary	22,683	19,709
Repairs and maintenance	20,965	22,181
Insurance	19,213	17,829
Dues and subscriptions	15,586	1,610
Communications	15,569	22,032
Training	12,859	18,514
Entertainment	3,113	597
Sales and marketing	591	2,401
Rentals	10	20
Other	<u>168,897</u>	<u>101,551</u>
Total operating expenses	<u>1,804,882</u>	<u>1,712,839</u>
Operating loss	<u>3,466</u>	<u>(781,924)</u>
Nonoperating revenues (expenses):		
Appropriations	400,000	400,000
Net increase in the fair value of investments	<u>42,959</u>	<u>21,973</u>
Total nonoperating revenues	<u>442,959</u>	<u>421,973</u>
Net earning (loss) before capital contributions	446,425	(359,951)
Capital contributions	<u>-</u>	<u>-</u>
Change in net position	446,425	(359,951)
Net position at beginning of year	<u>1,368,872</u>	<u>1,728,823</u>
Net position at end of year	<u>\$ 1,815,297</u>	<u>\$ 1,368,872</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

(A Component Unit of the Republic of Palau)

Statements of Cash Flows

For the years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,489,534	\$ 1,005,472
Cash payments to suppliers for goods and services	(687,011)	(675,580)
Cash payments to employees for services	<u>(668,958)</u>	<u>(665,831)</u>
Net cash used in operating activities	<u>133,565</u>	<u>(335,939)</u>
Cash flows from capital and related financing activities:		
Appropriations	<u>400,000</u>	<u>400,000</u>
Net cash provided by noncapital financing activities	<u>400,000</u>	<u>400,000</u>
Cash flows from capital and related financing activities:		
Capital assets acquisitions	(27,772)	(382,095)
Payments on note payable	<u>-</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(27,772)</u>	<u>(382,095)</u>
Cash flows from investing activities:		
Purchase of investments	<u>-</u>	<u>-</u>
Net cash used in investing activities	<u>-</u>	<u>-</u>
Net change in cash	505,793	(318,034)
Cash at beginning of year	<u>855,996</u>	<u>1,174,030</u>
Cash at end of year	<u>\$ 1,361,789</u>	<u>\$ 855,996</u>
Reconciliation of operating loss to net cash provided by (used in)		
operating activities:		
Operating income (loss)	\$ 3,466	\$ (781,924)
Adjustments to reconcile operating loss to net cash used in operating		
activities:		
Depreciation	233,798	276,772
Bad debts	-	1,552
Noncash pension costs	(71,007)	95,574
(Increase) decrease in assets:		
Receivables grantor agencies	(44,326)	114,530
Receivables, other	(35,284)	(14,290)
Inventories	2,193	(918)
Prepaid expense	-	(1,353)
Increase (decrease) in liabilities:		
Accounts payable	41,792	(39,573)
Accrued expenses	<u>2,933</u>	<u>13,691</u>
Net cash provided by (used in) operating activities	<u>\$ 133,565</u>	<u>\$ (335,939)</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2019 and 2018

(1) Organization and Purpose

The Palau International Coral Reef Center (the Center), a component unit of the Republic of Palau (ROP), was created on November 20, 1998, under the provisions of ROP Public Law (RPPL) 5-17. The Law created a wholly owned government non-profit corporation managed by a Board of Directors appointed by the President of ROP with the advice and consent of the Senate of the Olbiil Era Kelulau (ROP National Congress). The primary purpose of the Center is to carry out marine research and educate the public about the ecological, economic and cultural importance of coral reefs and their associated marine habitats.

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

(2) Summary of Significant Accounting Policies

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

Basis of Accounting

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

Budget and Appropriation

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

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Reclassifications

Certain reclassifications have been made to the 2018 financial statements for comparative purposes. Such reclassifications had no effect on previously reported net assets.

Cash

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

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2019 and 2018, the Center had cash totaling \$1,361,789 and \$855,996, respectively, and the corresponding bank balances were \$1,364,246 and \$886,222, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2019 and 2018, bank deposits of \$412,678 and \$412,678 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 \$693,260 and \$692,358 and investments of \$424,772 and \$381,813, have been internally restricted as of September 30, 2019 and 2018, respectively. These restricted funds consist of solicited donations and a portion of operating revenues designated by the Board.

Receivables and the Allowance for Doubtful Accounts

The Center grants credit, on an unsecured basis, to individuals and businesses and governmental entities located in the Republic of Palau. The allowance for doubtful accounts is established through a provision charged to expense. Specific accounts are charged against the allowance when management believes that the collection of the balance is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing balances that may be uncollectible, based on the specific identification method.

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Investments

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

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

General:

1. Any pertinent restrictions existing under the laws of ROP with respect to the Center, that may exist now or in the future, will be the governing restriction.
2. U.S. and non-U.S. equities, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.
3. No individual security of any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of Investment Manager's portfolio.
4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the Investment Manager are subject to 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 sale; and margin transactions.

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

Investments may be made in:

A. Equity Investments

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

A. 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.

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

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

B. Cash and Cash Equivalents

1. Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or their equivalent. U.S. Treasury and agency securities, bankers' acceptances, certificates of deposit, and collateralized repurchase agreements are also acceptable investment vehicles. Custodial sweep accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.
2. In the case of certificates of deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10,000,000 in assets may not be made in excess of \$100,000 (or prevailing FDIC insurance limit), unless the deposit is fully collateralized by U.S. Treasury securities.
3. No single issue shall have a maturity of greater than two (2) years.
4. Custodial sweep accounts or similar money market portfolios are permitted and must have an average maturity of less than one (1) year.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Center will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Center's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in the Center's name by the Center's custodial financial institutions at September 30, 2019 and 2018.

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

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

The Center values its investments at fair value in accordance with GASB Statement 31. The Center's investments as of September 30, 2019 and 2018 are as follows:

Investment Type	Fair Value	
	2019	2018
Cash and money market funds	\$ 9,294	\$ 12,776
Exchange-traded and closed-end funds	415,478	369,037
	\$ 424,772	\$ 381,813

GASB Statement No. 40 requires entities to provide information about the credit risk associated with their investments by disclosing the credit quality ratings. All fixed income securities have a credit rating of AAA based on Moody's credit quality rating and mature within one to five years.

Fair Value Measurement of the Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined. The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Center has the following fair value measurements:

	Fair Value Measurement Using			
	2019	Level 1	Level 2	Level 3
Investments by fair value level				
Exchange traded funds	\$ 415,478	\$ 415,478	\$ -	\$ -
Common stock	-	-	-	-
Total investments by fair fair value level	\$ 415,478	\$ 415,478	\$ -	\$ -
Investments measured at cost based measure				
Cash and cash equivalents	\$ 9,294			

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurement of the Investments, continued

	Fair Value Measurement Using			
	2018	Level 1	Level 2	Level 3
Investments by fair value level				
Exchange traded funds	\$ 369,037	\$ 369,037	\$ -	\$ -
Common stock	-	-	-	-
Total investments by fair fair value level	<u>\$ 369,037</u>	<u>\$ 369,037</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at cost based measure				
Cash and cash equivalents	<u>\$ 12,776</u>			

Concentration of Credit Risk

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments that represents five percent (5%) or more of total investments of the Center. As of September 30, 2019 and 2018, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Center's total investments:

	2019	2018
<u>Exchange-traded and Closed-end Funds:</u>		
Ishares TR Core AGGBD ET	24%	21%
Ishares TR Core US	21%	21%
Ishares TR Core MSCI EAFE	17%	16%
Ishares TR RUS 1000 Val ETF	13%	13%
Ishares TR RUS 1000 GRW ETF	13%	13%
SPDR S&P Dividend EFT	7%	7%
SPDR S&P Midcap 400 EFT Trust	7%	7%
Ishares TR RUS 2000 ETF	5%	5%

Custodial credit risk

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Center will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Center's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on those agreements, all of these investments were held in the Center's name by the custodial financial institutions at September 30, 2019 and 2018.

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurement of the Investments, continued

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held for less than 30 days in foreign accounts until it can be repatriated or expended. For the years ended September 30, 2019 and 2018, the Center did not have investments in foreign currency.

Investment income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect an investment's value. The Center does not have a formal policy regarding interest rate risk. At September 30, 2019 and 2018, the Center did not have any investments in debt securities.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Center has determined the changes in assumption, changes in proportion and difference between the Center's contributions and proportionate share of contributions and pension contributions made subsequent to the measurement date qualify for reporting in this category.

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
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Capital Assets

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

Compensated Absences

Vested or accumulated unpaid annual leave is accrued when earned and is included in the statements of net position as an accrued expense. Annual leave accumulates at the rate of 6 hours biweekly, if less than 6 years of service, 7 hours biweekly, if between 7 and 14 years of service, and 8 hours biweekly if 15 years or more of service.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Center has determined the changes in assumption, differences between projected and actual earnings on pension plan investments and changes in proportion and difference between the Center's contributions and proportionate share of contributions qualify for reporting in this category.

Taxes

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

Operating and Non-Operating Revenues and Expenses

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

Net Position

The Center's net position is classified as follows:

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

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(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. Restricted net position resulted from the following grants at September 30, 2019 and 2018:

	2019	2018
Italian Minisry for Environmental Land and Sea	\$ 295,858	\$ 11,420
Rockefeller Philanthropy - Ocean 5 PNMS	226,000	-
	\$ 521,858	\$ 11,420

- 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.

Pensions

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

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2019, the Center implemented the following pronouncements:

- GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations associated with the retirement of a tangible capital asset.
- GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these Statements did not have a material effect on the Center's financial statements.

Upcoming Accounting Pronouncements

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 will be effective for reporting periods after December 15, 2018. Management does not believe that the implementation of this Statement will have a material effect on the Center's financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which established a single model for lease accounting based on the foundational principle that leases are financing of the right of use an underlying asset. The provisions in this Statement are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this Statement will have a material effect on the Center's financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in this Statement are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this Statement will have a material effect on the Center's financial statements.

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements, Continued

In August 2018, GASB issued Statement No. 90, *Majority Equity Interest*, which improves the consistency and comparability of reporting of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. Management does not believe that the implementation of this Statement will have a material effect on the Center's financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions of this Statement are effective for fiscal years beginning December 15, 2020. Management does not believe that the implementation of this Statement will have a material effect on the Center's financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statements No. 84, 89, 90, and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to determine whether the implementation of these Statements will be postponed as provided in GASB Statement No. 95.

(3) Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

Plan Description: The Center contributes to the Republic of Palau Civil services Pension Trust Fund (the Plan), a defined benefit, cost sharing multi-employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and their benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987 and began operations on October 1, 1987.

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

3) Employees' Retirement Plan, Continued

Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2. A single actuarial valuation report is performed annually covering all plan members and the same contribution rate applies to each employer.

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

Plan Membership. As of September 30, 2015, the date of the most recent valuation, plan membership consisted of the following:

Inactive members currently receiving benefits	1,576
Inactive members entitled to but not receiving benefits	1,162
Active members	<u>3,422</u>
Total members	<u><u>6,160</u></u>

Pension Benefits. Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Pension Fund receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions.

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(3) Employees' Retirement Plan, Continued

A. General information About the Pension

Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty-year mandatory service provisions. These provisions were restored through RPPL 8-10 in October 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

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

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

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

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

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

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

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced according to the following schedule based on the age at which early retirement benefit payments begin:

- 1/12th per year for the first 3 years before age 60;
- plus an additional 1/18th per year for the 3 years;
- plus an additional 1/24th per year for the next 5 years; and
- plus and additional 1/50th per year for each year in excess of 11 years.

Upon the death of a member or former member with eligible survivors before commencement of the members' normal, early, or late retirement benefits or disability retirement benefits the following shall be payable:

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, he total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.
- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

Upon the death of a member or former member before commencement of his normal, early, or late retirement benefit or disability retirement benefit leaving no persons eligible for survivor benefits, the following shall be payable:

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

Contributions. Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than (15) fifteen years membership service may elect to receive a refund of all his or her contributions. Subsequent changes in the percentage contributed by members may be made through and amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Plan through payroll deduction.

Employers are required to contribute an amount equal to that contributed by employees. Pursuant to RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic OF Palau must from time to time contribute additional sums to the Plan in order to keep the Plan on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Plan equal to the amount contributed by each and every employee of ROP. Additionally, an excise tax of four percent (4%) is levied against each non-citizen person transferring money out of ROP. The money transfer tax must be remitted to the Plan.

The Center's contribution to the Plan for the years ended September 30, 2019, 2018 and 2017 were \$26,521, \$28,117, and \$27,007, respectively, which were equal to the required contributions for the respective years then ended.

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2018, for the measurement date, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under entry age normal method																		
Amortization Method:	Level dollar, open with remaining amortization period of 30 years																		
Asset Valuation Method:	Market Value of Assets																		
Investment Income:	7.5% per year																		
Inflation:	3.0%																		
Interest on Member Contributions:	5.0% per year																		
Salary Increase:	3.0% per year																		
Expenses:	\$300,000 each year																		
Mortality:	RP 2000 Combined Healthy Mortality Table, set forward four years for all members except disability recipients, except the table is set forward ten years																		
Termination of Employment:	5% for ages 20 to 39; non for all other ages																		
Disability:	<table border="0" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;"><u>Age</u></th> <th style="text-align: left;"><u>Disability</u></th> </tr> </thead> <tbody> <tr><td>25</td><td>0.21%</td></tr> <tr><td>30</td><td>0.18%</td></tr> <tr><td>35</td><td>0.25%</td></tr> <tr><td>40</td><td>0.35%</td></tr> <tr><td>45</td><td>0.50%</td></tr> <tr><td>50</td><td>0.76%</td></tr> <tr><td>55</td><td>1.43%</td></tr> <tr><td>60</td><td>2.12%</td></tr> </tbody> </table>	<u>Age</u>	<u>Disability</u>	25	0.21%	30	0.18%	35	0.25%	40	0.35%	45	0.50%	50	0.76%	55	1.43%	60	2.12%
<u>Age</u>	<u>Disability</u>																		
25	0.21%																		
30	0.18%																		
35	0.25%																		
40	0.35%																		
45	0.50%																		
50	0.76%																		
55	1.43%																		
60	2.12%																		
Retirement Age:	100% at age 60																		
Form of Payment:	Single: Straight life annuity; Married 100% joint and survivor																		

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.
Duty vs Non-duty related disability:	100% Duty related.
Refund of Contributions:	80% of terminated vested members elect a refund of contributions
Final Average Earnings:	Deferred vested members missing data for their final average earnings amount are assumed to receive the average benefit of current retirees or beneficiaries, respectively.

Investment Rate of Return

The long-term expected rate of return on the Plan's investments of 7.5% was determined using the building-block method, creating a best-estimate range for each asset class.

As of September 30, 2018, the geometric mean rates of return for each major investment class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
U.S. Large Cap Equity	20%	8.70%
U.S. Small/Mid Cap Equity	5%	9.13%
International Equity	15%	9.19%
Emerging Markets	10%	12.52%
U.S. Aggregate Fixed Income	35%	3.82%
Global Broad Fixed Income	10%	3.40%
Global REIT	<u>10%</u>	8.33%
	<u>100%</u>	

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

Discount Rate

The discount rate used to measure the total pension liability was 4.16% at the current measurement date and 3.62% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2023 for the 2018 measurement date. For years after 2023, a discount rate of 4.09% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Center as of September 30, 2018, calculated using the discount rate of 4.16%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (3.16%) or 1.00% higher (5.16%) from the current rate.

<u>1% Decrease 3.16%</u>	<u>Current Single Discount Rate Assumption 4.16%</u>	<u>1% Increase 5.16%</u>
\$2,183,565	\$1,898,628	\$1,661,002

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

Pension Liability. At September 30, 2019 and 2018, the Center reported a liability of \$1,898,628 and \$2,098,212, respectively, for its proportionate share of the net pension liability. The Center's proportion of the net pension liability was based on the projection of the Center's long-term share of contributions to the Plan relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other Government agencies, actuarially determined. At September 30, 2019 and 2018, the Center's proportion was 0.7568% and 0.8089%, respectively.

Pension Expense. For the years ended September 30, 2019 and 2018, the Center recognized pension expense of \$100,723 and \$97,727, respectively.

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

Deferred Outflows and Inflows of Resources. At September 30, 2019 and 2018, the Center reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 149,724	\$ 28,352	\$ 193,156	\$ 41,009
Net difference between projected and actual earnings on pension plan investments	5,404	8,274	11,552	10,254
Change in assumptions	169,758	262,066	245,343	198,768
Authority contributions subsequent to the measurement date	-	-	-	-
Changes in proportion and difference between the Center's contributions and appropriate share of contributions	128,665	266,244	172,123	212,937
Total	\$ 453,551	\$ 564,936	\$ 622,174	\$ 462,968

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2019 will be recognized in pension expense as follows:

<u>Year ending September 30,</u>	
2020	\$ 74
2021	(21,648)
2022	(17,812)
2022	9,862
2023	(42,415)
Thereafter	(39,479)
	\$ (111,418)

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

4) Due from Grantor Agencies

The Center is a direct recipient of a contract award received from the Italy Government, Rockefeller Philanthropy Advisors, Micronesia Conservation Trust, and the U.S. Department of Interior. 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, 2019 and 2018 are as follows:

	2019	2018
Balance at beginning of year	\$ 153,826	\$ 160,550
Deductions - cash receipts from grantor agencies	(66,568)	(55,652)
Additions - program outlays	110,894	48,928
Balance at end of year	\$ 198,152	\$ 153,826

5) Capital Assets

Capital assets as of September 30, 2019 and 2018, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2018	Additions	Deletions	Balance at September 30, 2019
Buildings	10-30 years	\$ 4,070,932	\$ -	\$ -	\$ 4,070,932
Mechanical, electric, research office exhibit and marine equipment	2- 15 years	1,832,686	-	-	1,832,686
Aquarium	7 years	1,585,360	14,248	-	1,599,608
Furniture and fixtures	5 years	101,089	4,134	-	105,223
Computers	5 years	28,576	-	-	28,576
Vehicles	3 years	60,405	9,390	-	69,795
CIP in Progress		200,000	-	-	200,000
		7,879,048	27,772	-	7,906,820
Accumulated depreciation		(5,903,778)	(233,798)	-	(6,137,576)
		\$ 1,975,270	\$ (206,026)	\$ -	\$ 1,769,244

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

5) Capital Assets, Continued

	Estimated Useful Lives	Balance at October 1, 2017	Additions	Deletions	Balance at September 30, 2018
Buildings	10-30 years	\$ 3,694,472	\$ 376,460	\$ -	\$ 4,070,932
Mechanical, electric, research office exhibit and marine equipment	2- 15 years	1,832,686	-	-	1,832,686
Aquarium	7 years	1,585,360	-	-	1,585,360
Furniture and fixtures	5 years	101,089	-	-	101,089
Computers	5 years	22,941	5,635	-	28,576
Vehicles	3 years	60,405	-	-	60,405
CIP in Progress		200,000	-	-	200,000
		7,496,953	382,095	-	7,879,048
Accumulated depreciation		(5,627,006)	(276,772)	-	(5,903,778)
		<u>\$ 1,869,947</u>	<u>\$ 105,323</u>	<u>\$ -</u>	<u>\$ 1,975,270</u>

The construction in-progress represents the cost incurred for the construction of research facilities expansion project with year-to-date cost totaling \$200,000 as of September 30, 2018. The total cost to complete the project is \$840,000; however, due to funding limitations, the project was divided into two phases. Phase I in the amount of \$400,000 is funded by the ROP Economic Stimulus Package (ESP) FY-2014 and Phase II in the amount of \$440,000 is funded by the Center. The project is expected to be completed during 2019.

6) Inventories

Inventories as of September 30, 2019 and 2018, consist of the following:

	<u>2019</u>	<u>2018</u>
Merchandise	\$ 14,361	\$ 16,554
Spare parts	1,917	1,917
	<u>\$ 16,278</u>	<u>\$ 18,471</u>

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

7) Noncurrent Liabilities

A summary of changes in noncurrent liabilities during fiscal year ended September 30, 2019 and 2018 is as follows:

	<u>Outstanding</u>			<u>Outstanding</u>		
	<u>October 1,</u>	<u>Decreases</u>	<u>Increases</u>	<u>September 30,</u>	<u>Current</u>	<u>Noncurrent</u>
	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2019</u>
Net Pension Liability	\$ 2,098,212	\$ 199,584	\$ -	\$ 1,898,628	\$ -	\$ 1,898,628
	<u>\$ 2,098,212</u>	<u>\$ 199,584</u>	<u>\$ -</u>	<u>\$ 1,898,628</u>	<u>\$ -</u>	<u>\$ 1,898,628</u>
	<u>Outstanding</u>	<u>Decreases</u>	<u>Increases</u>	<u>Outstanding</u>	<u>Current</u>	<u>Noncurrent</u>
	<u>October 1,</u>	<u>2017</u>	<u>2017</u>	<u>September 30,</u>	<u>2017</u>	<u>2017</u>
	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>
Net Pension Liability	\$ 2,078,159	\$ -	\$ 20,053	\$ 2,098,212	\$ -	\$ 2,098,212
	<u>\$ 2,078,159</u>	<u>\$ -</u>	<u>\$ 20,053</u>	<u>\$ 2,098,212</u>	<u>\$ -</u>	<u>\$ 2,098,212</u>

8) Republic of Palau

During the year ended September 30, 2019 and 2018, the Center recorded appropriations for operations of \$400,000 through RPPL 10-12 and RPPL 10-01, respectively.

The Center conducts its operations on land without charge in the State of Koror, through a land settlement agreement dated February 3, 1997 between ROP, the Palau Public Lands Authority, the Koror State Government and the Koror State Public Lands Authority. The land settlement agreement stipulates that ROP will retain the use of the land for as long as it is used for the Center and as long as no commercial or other profit-making ventures are conducted on the premises.

9) Risk Management

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

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

Notes to Financial Statements, continued
September 30, 2019 and 2018

10) Subsequent Events

The Center has evaluated subsequent events from October 1, 2019 through January 14, 2021, the date of financial statements were available to be issued. The Center did not note any subsequent events requiring disclosure or adjustment to the accompanying financial statements.

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

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014	2013
Civil Service Pension Trust Fund (Plan) total net pension liability	\$250,868,784	\$259,395,005	\$249,453,960	\$215,546,176	\$204,281,232	\$182,080,332
The Center's proportionate share of the net pension liability	\$ 1,898,628	\$ 2,098,212	\$ 2,078,159	\$ 1,565,921	\$ 1,783,171	\$ 1,580,457
The Center's proportionate share of the net pension liability	0.757%	0.809%	0.833%	0.726%	0.873%	0.868%
The Center's covered-employee payroll**	\$ 443,983	\$ 468,617	\$ 441,236	\$ 352,326	\$ 410,366	\$ 321,633
The Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	427.64%	447.75%	470.99%	444.45%	434.53%	491.39%
Plan Fiduciary net position as a percentage of the total pension liability	23.38%	22.33%	21.23%	22.50%	23.01%	20.35%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See accompanying Independent Auditors' Report.

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 131,021	\$ 138,960	\$ 120,112	\$ 79,187	\$ 92,733	\$ 54,602
Contribution in relation to the actuarially determined contribution	<u>26,639</u>	<u>28,117</u>	<u>26,111</u>	<u>20,999</u>	<u>24,165</u>	<u>21,838</u>
Contribution (excess) deficiency	<u>\$ 104,382</u>	<u>\$ 110,843</u>	<u>\$ 94,001</u>	<u>\$ 58,188</u>	<u>\$ 68,568</u>	<u>\$ 32,764</u>
Center's covered-employee payroll	<u>\$ 443,983</u>	<u>\$ 468,617</u>	<u>\$ 441,236</u>	<u>\$ 352,326</u>	<u>\$ 410,366</u>	<u>\$ 321,633</u>
Contribution as a percentage of covered-employee payroll	6.00%	6.00%	5.92%	5.96%	5.89%	6.79%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See accompanying Independent Auditors' Report.

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

Schedule of Investments
September 30, 2019

<u>Cash and Money Market Funds</u>	<u>Cost</u>	<u>Fair Value</u>
Goldman Sachs Bank USA	\$ 9,294	\$ 9,294
Total Cash and Money Market Funds	<u>9,294</u>	<u>9,294</u>
<u>Equities</u>		
<u>Exchange-Traded and Closed-End Funds</u>		
Ishares TR Core AGGBD ET	\$ 96,482	\$ 98,798
Ishares TR RUS 1000 VAL ETF	47,534	55,408
Ishares TR RUS 1000 GRW ETF	36,453	53,636
Ishares TR RUS 2000 GRW ETF	18,176	21,339
Ishares TR Core MSCI EAFE	65,545	69,070
Ishares TR Core 1 5yr USD	16,042	16,510
Ishares Incorporated Core MSCI EMKT	16,262	17,206
SPDR Portfolio Intermediate Term Corporate Bond ETF	12,061	12,383
SPDR Trust S&P Dividend EFT	25,453	30,472
SPDR S&P Midcap 400 EFT Trust	23,444	28,198
SPDR Series Trust Barclays CAP Investment EFT	<u>12,430</u>	<u>12,458</u>
Total Exchange-Traded and Closed-End Funds	<u>369,882</u>	<u>415,478</u>
Total Cash, Money Market Funds and Equities	<u>\$ 379,176</u>	<u>\$ 424,772</u>

See accompanying Independent Auditors' Report.

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

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

Year Ended September 30, 2019



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Palau International Coral Reef Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palau International Coral Reef Center (the Center), which comprise the statement of net position as of September 30, 2019, and the related statements of revenues, expenses and changes in net position and the statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 14, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Palau International Coral Reef Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Palau International Coral Reef Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palau International Coral Reef Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Koror, Republic of Palau
January 14, 2021