

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

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**September 30, 2023 and 2022**

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

Financial Statements

Years Ended September 30, 2023 and 2022

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CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Palau International Coral Reef Center

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of the Palau International Coral Reef Center (the Center), a component unit of the Republic of Palau, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Center, as of September 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 4 through 10, the Schedule of Proportional Share of the Net Pension Liability on page 42, and the Schedule of Pension Contributions on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2026, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Center's internal control over financial reporting and compliance.



Koror, Republic of Palau  
February 25, 2026



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## PALAU INTERNATIONAL CORAL REEF CENTER

### Management's Discussion and Analysis Fiscal Year Ended September 30, 2023

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, 2023, with selected comparative information for the fiscal years ended September 30, 2023 and 2022.

#### **ORGANIZATION AND MISSION**

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

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

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

To achieve its mission, the Center developed and adopted its Strategic Plan 2023-2028 with goals and objectives to guide it towards a center of excellence that produces high quality and impactful research, education, and opportunities to support stewardship of Palau's ocean resources. The strategic plan focuses on the Center's core values to reflect emerging global ideas such as inclusivity and diversity, and to reflect the importance of Palauan traditional knowledge which is essential to Palau's unique identity to its work and outcomes.

#### **VISION**

Empowered Ocean Stewardship that sustains people and inspires the world.

## **MISSION STATEMENT**

To be a Center of excellence that produces high quality and impactful research, education, and opportunities to support stewardship of Palau's Ocean Resources.

## **CORE VALUES**

The Center is guided by the following core values:

1. Working inclusively through cooperation, teamwork, and partnership both within the center and with external partners.
2. Achieving meaningful results through hard work focus and effective application of our knowledge and skills.
3. Reliable and consistent, providing excellent service to our guests, clients, and partners.
4. Deliver quality information and objective and innovative science in order to support sound resource management decisions and actions.
5. Visionaries, pursuing and adapting to important trends and opportunities.
6. 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.
7. Passionate, confident experts working towards transparent research that is accessible.
8. Ensuring Diversity in a uniquely Palauan center.

## **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**

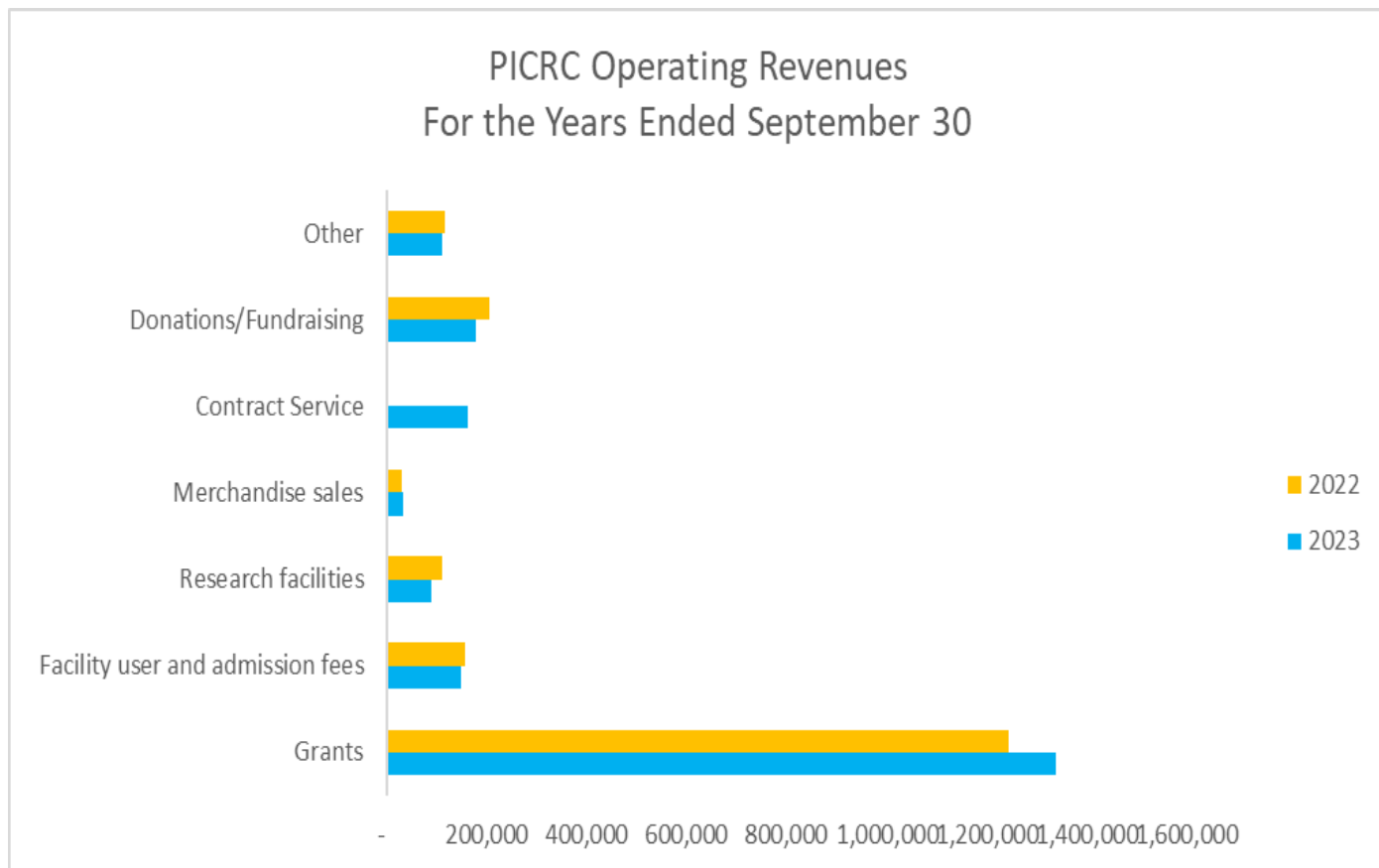
In fiscal year 2023, operating revenues increased by \$194,044 or 10% (\$2,058,080 in FY 2023 versus \$1,864,036 in FY 2022), mainly due to increase in grants by \$92,967 or 7% through the various grants. Other increases were in merchandise sales of 4%. On the other hand, the following were decreased in FY 2023, facility users and admissions fees by 6%, research facilities by 18%, donations/fundraising by 14% and other operating revenues by 3%. In FY 2023, the Center was fortunate to receive grants funding to support the research, education and awareness efforts for the Palau National Marine Sanctuary (PNMS) and inshore research through various grantors agencies.

Operating expenses decreased by 20% (\$2,511,688 in FY 2023 versus \$3,134,763 in FY 2022). Salaries and wages decreased by 19% mainly due to staff resignation in FY 2023. Merchandise cost also decreased by 61% due to downsizing the giftshop. Other increases were in fundraising/donations by 168% due to increase of higher costs associated with expanded fundraising efforts during FY 2023. Travel also increased by 375% compared to last fiscal year due to various trainings, workshops, conferences, that requires management, researchers and implementing partners to attend to further engage and enhance our relationship with the stakeholders and collaborations.

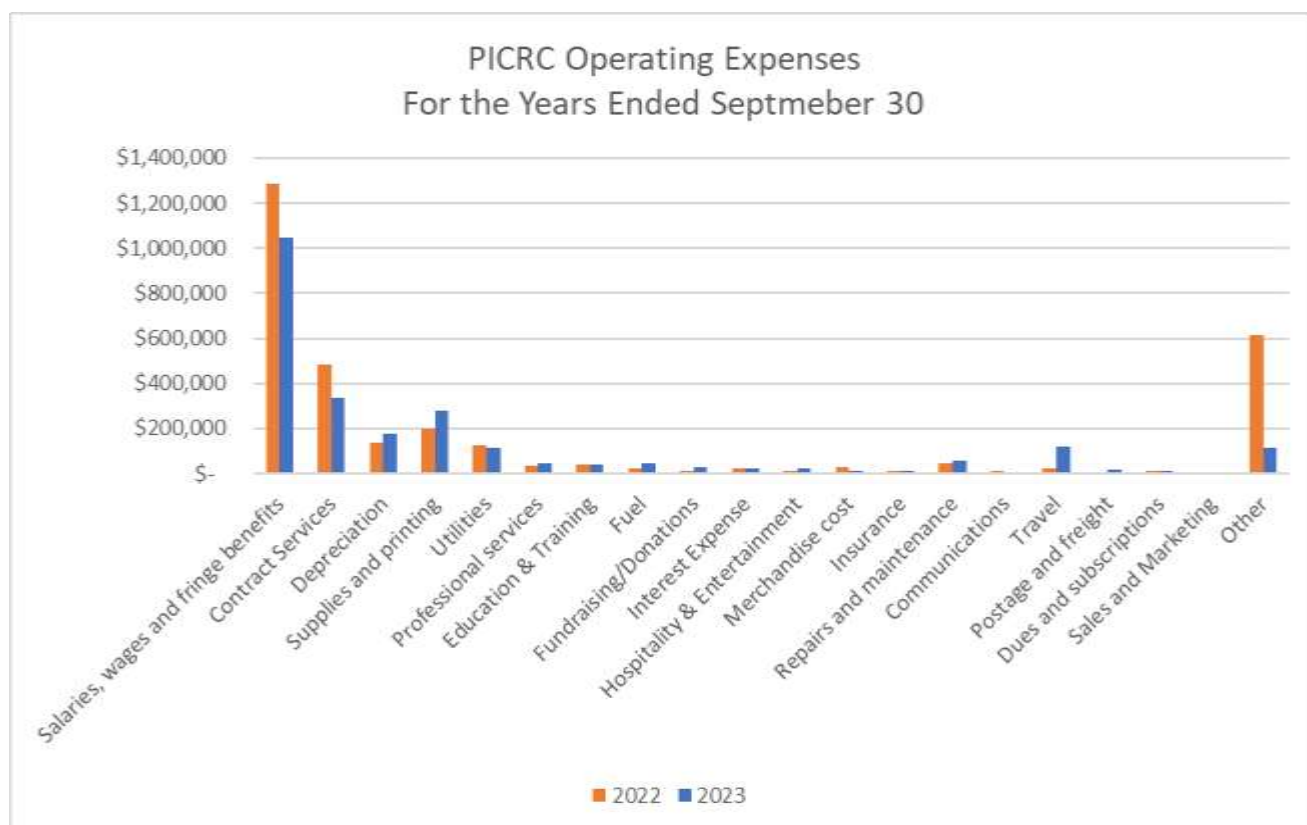
The Center received the Government appropriation of \$360,000 in FY 2023. The Center started receiving Palau Pristine Paradise Environmental Fee (PPEF) in FY 2020 and received \$126,161 or increased by 97% in FY 2023 compared to \$64,106 in FY 2022 due to the increase of visitors. Fair value of investments increased by 138% from \$236,043 in FY 2022 to \$88,932 in FY 2023. Total nonoperating revenues increased by 257% or \$765,032 in FY 2023 compared to \$214,169 in FY 2022. As a result, the net position at the end of the year increased by 55% or \$879,751 in FY 2023 compared to \$568,327 in FY 2022.

A summary of operations, changes in net position and cash flows for the fiscal years ended September 30, 2023 and 2022 follows:

**Statements of Revenues, Expenses and Changes in Net Position (Charts)  
Years Ended September 30, 2023 and 2022**



## OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED



### Statements of Cash Flows Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Net cash used for operating activities	\$ (25,545)	\$ (352,080)	(93%)
Net cash provided by noncapital financing activities	486,161	424,106	15%
Net cash used for capital and related financing activities	(151,729)	(89,293)	70%
Net cash used investing activities	<u>(10,628)</u>	<u>(26,689)</u>	(60%)
Net change in cash	298,259	(43,956)	(779%)
Cash at beginning of year	<u>338,828</u>	<u>382,784</u>	(11%)
Cash at end of year	<u>\$ 637,087</u>	<u>\$ 338,828</u>	88%

## **OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED**

### **OVERVIEW OF FINANCIAL POSITION**

Total current assets increased by \$191,540 or 9% in FY 2023 over FY 2022, due to increases in PPEF and investments in year ended September 30, 2023.

Total assets and deferred in outflows of resources increased by \$298,501 or 6%, due to the increase of property plant and equipment.

Total current liabilities decreased by \$12,923 by 3% primarily due to the decreases in deferred revenues and accrued expenses in 2023 compared to 2022.

### **Capital Assets**

At September 30, 2023 and 2022, the Center had \$1,513,412 and \$1,406,451, respectively, invested in capital assets, net of accumulated depreciation where applicable, including buildings, mechanical, electrical, research, office, exhibit and marine equipment, aquarium, furniture and fixtures, computers and vehicles. The Center had a decrease of unrestricted funds of \$302,114 in FY 2023 compared to FY 2022 which represents a net increase in FY 2023 of \$298,501 or 6% over FY 2022.

### **Long-Term Liabilities**

At September 30, 2023, the Center's net pension liability remained steady at \$763,203 same as FY 2022. 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, 2023 and 2022 is shown below page 9:

## OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

### Statements of Net Position September 30, 2023 and 2022

<u>ASSETS</u>	<u>2023</u>	<u>2022</u>	Increase <u>(Decrease)</u>	<u>% Change</u>
Current assets:				
Cash	\$ 637,087	\$ 338,828	\$ 298,259	88%
Investments	1,248,392	1,089,022	159,370	15%
Receivables, net	525,207	799,944	(274,737)	(34%)
Inventories	17,860	5,327	12,533	235%
Less allowance for credit losses	(3,561)	(9,356)	5,795	(62%)
Prepaid expense	533	10,213	(9,680)	(95%)
Total current assets	2,425,518	2,233,978	191,540	9%
Property, plant and equipment, net	1,513,412	1,406,451	106,961	8%
Total current assets	3,938,930	3,640,429	298,501	8%
Deferred outflows of resources	1,288,712	1,288,712	-	0%
Total assets and deferred outflows of resources	<u>\$5,227,642</u>	<u>\$4,929,141</u>	<u>\$ 298,501</u>	6%
<u>LIABILITIES DEFERRED INFLOWS OF RESOURCES</u>				
<u>AND NET POSITION</u>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 178,065	\$ 182,996	\$ (4,931)	(3%)
Deferred revenues	220,928	228,920	(7,992)	(3%)
Total current liabilities	398,993	411,916	(12,923)	(3%)
Net pension liabilities	3,185,695	3,185,695	-	0%
Total liabilities	3,584,688	3,597,611	(12,923)	(0%)
Deferred inflows of resources from pension	763,203	763,203	-	0%
Total liabilities and deferred inflows of resources	4,347,891	4,360,814	(12,923)	(0%)
Net Position:				
Invested in Capital Assets	1,513,412	1,406,451	106,961	8%
Restricted	171,571	269,222	(97,651)	(36%)
Unrestricted	(805,232)	(1,107,346)	302,114	(27%)
Total net position	879,751	568,327	311,424	55%
Total liabilities and deferred inflows of resources and net position	<u>\$5,227,642</u>	<u>\$4,929,141</u>	<u>\$ 298,501</u>	6%

## **OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED**

### **ECONOMIC OUTLOOK**

As the world continues to face the issue on climate change, fisheries, and depleted natural resources PICRC continues to play a vital role within Palau, Micronesia and the world as the only research facility within Palau and Micronesia that is equipped to conduct various research activities. This fiscal year of 2023, the Center notably experienced a significant increase in its revenues because of the various available grants that were granted to support the Center's mission to be the steward of our ocean resources. As the funds increase, so do the expenditures.

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

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

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

Despite global economic uncertainties and environmental challenges, management remains confident in the Center's ability to advance its mission through sound financial stewardship, effective strategic planning, and continued collaboration with stakeholders and partners.

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

### **CONTACTING THE CENTER'S FINANCIAL MANAGEMENT**

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

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

Statements of Net Position  
September 30, 2023 and 2022

<u>ASSETS AND</u> <u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2023</u>	<u>2022</u>
Current assets:		
Cash	\$ 637,087	\$ 338,828
Investments	1,248,392	1,089,022
Receivables:		
Grantor agencies	202,954	217,823
Other	322,253	582,121
	<u>525,207</u>	<u>799,944</u>
Less allowance for credit losses	(3,561)	(9,356)
Total receivables, net	<u>521,646</u>	<u>790,588</u>
Inventories	17,860	5,327
Prepaid expense	533	10,213
Total current assets	<u>2,425,518</u>	<u>2,233,978</u>
Capital assets, net	<u>1,513,412</u>	<u>1,406,451</u>
Total assets	3,938,930	3,640,429
Deferred outflows of resources from pension	<u>1,288,712</u>	<u>1,288,712</u>
Total assets and deferred outflows of resources	<u>\$ 5,227,642</u>	<u>\$ 4,929,141</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u> <u>AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 42,467	\$ 86,350
Accrued expenses	135,598	96,646
Deferred revenues	220,928	228,920
Total current liabilities	<u>398,993</u>	<u>411,916</u>
Net pension liability	<u>3,185,695</u>	<u>3,185,695</u>
Total liabilities	3,584,688	3,597,611
Deferred inflows of resources from pension	<u>763,203</u>	<u>763,203</u>
Total liabilities and deferred inflows of resources	<u>4,347,891</u>	<u>4,360,814</u>
Net position:		
Invested in capital assets	1,513,412	1,406,451
Restricted	171,571	269,222
Unrestricted	(805,232)	(1,107,346)
Total net position	<u>879,751</u>	<u>568,327</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,227,642</u>	<u>\$ 4,929,141</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, 2023 and 2022

	2023	2022
Operating revenues:		
Grants	\$ 1,337,057	\$ 1,244,090
Donations	176,958	95,291
Contract service	161,095	-
Facility user/admission fees	148,055	157,896
Research facilities	89,926	109,782
Giftshop sales	31,815	30,468
Fundraising	1,000	111,322
Other	112,174	115,187
Total operating revenues	2,058,080	1,864,036
Operating expenses:		
Salaries, wages and fringe benefits	1,048,147	1,286,789
Cost of contract	334,971	484,758
Supplies and printing	280,903	197,833
Depreciation	174,897	137,558
Travel	118,524	24,946
Utilities	113,135	123,839
Repairs and maintenance	56,660	43,009
Fuel	45,836	23,042
Professional fees	44,492	37,189
Education and training	40,584	41,388
Fundraising/donations	30,174	11,275
Interest expense	21,719	21,172
Hospitality & entertainment	21,097	12,744
Postage and shipping	17,517	6,824
Dues and subscriptions	14,468	12,797
Insurance	12,560	10,837
Merchandise	10,635	27,350
Communications	8,161	12,136
Marketing & sales	4,321	3,990
Other	112,887	615,287
Total operating expenses	2,511,688	3,134,763
Operating loss	(453,608)	(1,270,727)
Nonoperating revenues (expenses):		
ROP Appropriations	360,000	360,000
Palau Pristine Paradise Environmental Fees	126,161	64,106
Net increase (decrease) in the fair value of investments	88,932	(236,043)
Interest income	27,939	26,106
Capital contributions	162,000	-
Total nonoperating revenues	765,032	214,169
Change in net position	311,424	(1,056,558)
Net position at beginning of year	568,327	1,624,885
Net position at end of year	\$ 879,751	\$ 568,327

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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash received from customers	\$ 2,319,030	\$ 2,255,849
Cash payments to suppliers for goods and services	(1,335,380)	(1,666,243)
Cash payments to employees for services	(1,009,195)	(941,686)
Net cash used in operating activities	(25,545)	(352,080)
Cash flows from noncapital and related financing activities:		
Appropriations	360,000	360,000
Palau Pristine Paradise Environmental Fees	126,161	64,106
Net cash provided by noncapital financing activities	486,161	424,106
Cash flows from capital and related financing activities:		
Capital assets acquisitions	(151,729)	(89,293)
Net cash used in capital and related financing activities	(151,729)	(89,293)
Cash flows from investing activities:		
Net change in investments	88,932	(262,149)
Investment interest earned	27,939	26,106
Purchase of investments	(127,499)	209,354
Net cash used in investing activities	(10,628)	(26,689)
Net change in cash	298,259	(43,956)
Cash at beginning of year	338,828	382,784
Cash at end of year	\$ 637,087	\$ 338,828
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (453,608)	\$ (1,270,727)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	174,897	137,558
Noncash pension costs	-	249,682
(Increase) decrease in assets:		
Receivables grantor agencies	14,869	86,993
Receivables, other	254,073	179,106
Inventories	(12,533)	8,122
Prepaid expense	9,680	(1,868)
Increase (decrease) in liabilities:		
Accounts payable	(43,883)	37,909
Accrued expenses	38,952	95,421
Deferred revenues	(7,992)	125,724
Net cash used in operating activities	\$ (25,545)	\$ (352,080)

**Supplemental Disclosure of Noncash Capital Activities**

During the fiscal year ended September 30, 2023, PICRC received donated capital assets consisting of a truck and research vessel from the Japan International Cooperation Agency with a fair market value of \$162,000.

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(1) Organization and Purpose**

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

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

**(2) Summary of Significant Accounting Policies**

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

**Basis of Accounting**

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

**Budget and Appropriation**

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

**Estimates**

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

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Notes to Financial Statements  
September 30, 2023 and 2022

**(2) Summary of Significant Accounting Policies, Continued**

Cash

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

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand deposit accounts. As of September 30, 2023 and 2022, the Center had cash balances totaling \$637,087 and \$338,828, respectively. The corresponding bank balances were \$684,109 and \$436,353, respectively, which are maintained in financial institutions subject to coverage by the Federal Deposit Insurance Corporation (FDIC). Collateralization of deposits is not required; therefore, uninsured deposits are exposed to custodial credit risk. In accordance with the Center's Strategic Plan to become self-sustaining, the Board of Directors has internally designated certain resources for long-term sustainability initiatives. As of September 30, 2023 and 2022, cash totaling \$1,509 and \$6,877, respectively, and investments totaling \$1,248,392 and \$1,089,022, respectively, have been internally designated by the Board. These internally designated amounts consist of solicited donations and a portion of operating revenues set aside by the Board to support the Center's long-term financial sustainability. Because these designations are internal and may be modified by the Board at any time, the amounts are reported as unrestricted in the accompanying statements of net position.

Receivables and Allowance for Credit Losses

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

Inventories

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

Capital Assets

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

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Notes to Financial Statements  
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**(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.

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.

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

Investments, Continued

Investments may be made in:

A. Equity Investments, continued

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.

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.

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

Investments, Continued

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, 2023 and 2022.

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, 2023 and 2022 are as follows:

Investment Type	Fair Value	
	2023	2022
Equities	\$ 707,413	\$ 609,393
Fixed income	298,384	428,570
Exchange-traded and closed-end funds	189,103	-
REITs/Tangibles	11,284	12,167
Cash and money market funds	42,180	38,892
Non-classified	28	-
	\$ 1,248,392	\$ 1,089,022

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Notes to Financial Statements  
September 30, 2023 and 2022

**(2) Summary of Significant Accounting Policies, Continued**

Investments, Continued

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

As of September 30, 2023 and 2022, the Center's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

Investment Type	2023 Moody's Rating	Investment Maturities (In Years)				
		Market Value	Current	1-5	6-10	Over 10
U.S Treasury Notes	Aaa	\$ 152,941	\$ 16,354	\$ 89,279	\$ 8,778	\$ 38,530
Corporate Bonds	A1	28,094	-	9,184	18,910	-
Corporate Bonds	A2	19,198	-	19,198	-	-
Corporate Bonds	A3	16,588	-	-	8,453	8,135
Corporate Bonds	Aaa	8,524	-	-	-	8,524
Corporate Bonds	Baa	9,306	-	-	9,306	-
Corporate Bonds	Baa1	28,420	-	9,612	9,255	9,553
Corporate Bonds	Baa2	26,979	-	18,811	8,168	-
Corporate Bonds	Baa3	8,334	-	-	8,334	-
		<u>\$ 298,384</u>	<u>\$ 16,354</u>	<u>\$ 146,084</u>	<u>\$ 71,204</u>	<u>\$ 64,742</u>

Investment Type	2022 Moody's Rating	Investment Maturities (In Years)				
		Market Value	Current	1-5	6-10	Over 10
U.S Treasury Notes	Aaa	\$ 136,132	\$ 39,355	\$ 71,693	\$ -	\$ 25,084
Corporate Bonds	A1	16,815	-	9,064	-	7,751
Corporate Bonds	A2	15,211	-	7,433	7,778	-
Corporate Bonds	A3	24,878	-	9,480	-	15,398
Corporate Bonds	Aaa	144,279	-	137,092	-	7,187
Corporate Bonds	Baa	19,869	-	19,869	-	-
Corporate Bonds	Baa1	14,405	-	-	7,427	6,978
Corporate Bonds	Baa2	56,981	-	24,434	32,547	-
		<u>\$ 428,570</u>	<u>\$ 39,355</u>	<u>\$ 279,065</u>	<u>\$ 47,752</u>	<u>\$ 62,398</u>

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Notes to Financial Statements  
September 30, 2023 and 2022

**(2) Summary of Significant Accounting Policies, Continued**

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 recurring fair value measurements as of September 30, 2023 and 2022:

<b>2023</b>	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Investment by fair value level:				
Fixed income:				
U.S Treasury notes	\$ 152,941	\$ -	\$ 152,941	\$ -
Exchange-traded funds	145,443	-	145,443	-
Corporate bonds	189,103	-	189,103	-
	487,487	-	487,487	-
Equity securities:				
U.S equities	598,765	598,765	-	-
International equities	108,648	108,648	-	-
Total Investment at fair value	1,194,900	\$ 707,413	\$ 487,487	\$ -
Investment measured at NAV:				
Real Estate	11,284			
	11,284			
Investment measured at amortized cost:				
Cash management account	42,180			
Non-classified	28			
	\$ 1,248,392			

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**(2) Summary of Significant Accounting Policies, Continued**

Fair Value Measurement of the Investments, Continued

2022	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Investment by fair value level:				
Fixed income:				
U.S Treasury notes	\$ 136,132	\$ -	\$ 136,132	\$ -
Corporate bonds	<u>292,438</u>	<u>-</u>	<u>292,438</u>	<u>-</u>
	428,570	-	428,570	-
Equity securities:				
U.S equities	522,160	522,160	-	-
International equities	<u>87,233</u>	<u>87,233</u>	<u>-</u>	<u>-</u>
Total Investment at fair value	<u>1,037,963</u>	<u>\$ 609,393</u>	<u>\$ 428,570</u>	<u>\$ -</u>
Investment measured at NAV:				
Real Estate	<u>12,167</u>			
	<u>12,167</u>			
Investment measured at amortized cost:				
Cash management account	<u>38,892</u>			
	<u>\$ 1,089,022</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, 2023 and 2022, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Center's total investments:

	<u>2023</u>	<u>2022</u>
<u>Exchange-traded and Closed-end Funds:</u>		
Ishares TR Core US AGGBD ET	14%	13%
Ishares TR RUS 1000 Val ETF	6%	6%
Ishares TR RUS 1000 GRW ETF	6%	6%

*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, 2023 and 2022.

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**(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, 2023 and 2022, 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, 2023 and 2022, the Center did not have any investments in debt securities.

Compensated Absences

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

Taxes

The Republic of Palau passed Public Law 11-11 to comprehensively reform and modernize the tax code, which introduced the Palau Goods and Services Tax. The BPT system replaces Gross Receipts Tax. The new tax system imposes a 10% tax on all goods and services, which the Company must collect and remit to the government. Eligible businesses are also required to remit quarterly Business Profit Tax payments equal to 2% of quarterly revenues. BPT allows an entity to carry forward losses during its tax year to offset future profits for the next 4 years. The new tax changes became effective as of January 1, 2023.

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**(2) Summary of Significant Accounting Policies, Continued**

Operating and Non-Operating Revenues and Expenses

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

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.

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

Net Position

The Center’s net position is classified as follows:

- Invested in capital assets: capital assets, net of accumulated depreciation, plus construction or improvements of those assets.
- Restricted: net position subject to externally imposed stipulations that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time. The Center considers funds received through various grants to be restricted until expended in accordance with grant terms and conditions. Restricted net position resulted from the following grants at September 30, 2021 and 2020:

	2023	2022
Rockefeller Philanthropy - Ocean 5 PNMS	\$ 189,597	\$ 187,732
Italian Ministry for Environmental Land and Sea	25,547	13,446
Micronesia Conservation Trust	22,758	5,500
National Geographic Society	10,857	10,857
United Nations Development Programme	(30,800)	51,687
Great Barrier Reef Foundation	(46,388)	-
	\$ 171,571	\$ 269,222

- Unrestricted: net position that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Recently Adopted Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The adoption of GASB Statement No. 91 did not have an effect on the Center’s financial statements.

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**(2) Summary of Significant Accounting Policies, Continued**

Recently Adopted Accounting Pronouncements, Continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital assets (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service ability of the underlying PPP asset at the end of the arrangement. The adoption of GASB Statement No. 94 did not have an effect on the Center's financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. The adoption of GASB Statement No. 96 did not have an effect on the Center's financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provision, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. The adoption of GASB Statement No. 99 did not have an effect on the Center's financial statements.

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**(2) Summary of Significant Accounting Policies, Continued**

Upcoming Accounting Pronouncements

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability.

In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal years ending September 30, 2025.

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**(2) Summary of Significant Accounting Policies, Continued**

Upcoming Accounting Pronouncements, Continued

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements for MD&A will improve the quality of the analysis of changes from the prior year, which will enhance the relevance of that information. They also will provide clarity regarding what information should be presented in MD&A. The requirements for the separate presentation of unusual or infrequent items will provide clarity regarding which items should be reported separately from other inflows and outflows of resources. The definitions of operating revenues and expenses and of nonoperating revenues and expenses will replace accounting policies that vary from government to government, thereby improving comparability. The addition of a subtotal for operating income (loss) and noncapital subsidies will improve the relevance of information provided in the proprietary fund statement of revenues, expenses, and changes in fund net position. The requirement for presentation of major component unit information will improve comparability. The requirement that budgetary comparison information be presented as RSI will improve comparability, and the inclusion of the specified variances and the explanations of significant variances will provide more useful information for making decisions and assessing accountability. GASB Statement No. 103 will be effective for fiscal years ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame.

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**(2) Summary of Significant Accounting Policies, Continued**

Upcoming Accounting Pronouncements, Continued

This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for fiscal years ending September 30, 2026.

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

**(3) Employees' Retirement Plan**

Defined Benefit Plan

A. General Information About the Pension Plan:

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

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

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(3) Employees' Retirement Plan, Continued**

Defined Benefit Plan

A. General Information About the Pension Plan, Continued:

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

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

*Summary of the Principal Provisions of the Plan.*

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

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

*Service.*

Vesting Service: Includes membership service and prior service credit.

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

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

**PALAU INTERNATIONAL CORAL REEF CENTER**  
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Notes to Financial Statements  
September 30, 2023 and 2022

**(3) Employees' Retirement Plan, Continued**

Defined Benefit Plan

A. General Information About the Pension Plan, Continued:

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

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

**PALAU INTERNATIONAL CORAL REEF CENTER**  
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Notes to Financial Statements  
September 30, 2023 and 2022

**(3) Employees' Retirement Plan, Continued**

Defined Benefit Plan

A. General Information About the Pension Plan, Continued:

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

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

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

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

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:

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

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(3) Employees' Retirement Plan, Continued**

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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

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

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

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

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(3) Employees' Retirement Plan, Continued**

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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

*Member Contributions.* Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than (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 an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Plan through payroll deduction.

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

The Center's contribution to the Plan for the years ended September 30, 2023 and 2022 were \$33,362 and \$37,809, respectively, which were equal to the required contributions for the respective years then ended.

**PALAU INTERNATIONAL CORAL REEF CENTER**  
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Notes to Financial Statements  
September 30, 2023 and 2022

**(3) Employees' Retirement Plan, Continued**

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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

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

**PALAU INTERNATIONAL CORAL REEF CENTER  
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Notes to Financial Statements  
September 30, 2023 and 2022

**(3) Employees' Retirement Plan, Continued**

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

*Actuarial Assumptions and Other Inputs, continued.*

Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%

Retirement Age: 100% at age 60

Form of Payment: Single: Straight life annuity; Married: 100% joint and survivor

Marriage Assumption: 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.

Duty vs Non-duty related disability: 100% Duty related

Refund of Contributions: 80% of terminated vested members elect a refund of contributions

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

**PALAU INTERNATIONAL CORAL REEF CENTER**  
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Notes to Financial Statements  
September 30, 2023 and 2022

**(3) Employees' Retirement Plan, Continued**

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

*Investment Rate of Return, continued.* As of July 2024, the twenty-year arithmetic real rates of return for each major investment class are as follows:

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

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

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

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

**PALAU INTERNATIONAL CORAL REEF CENTER**  
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Notes to Financial Statements  
September 30, 2023 and 2022

**(3) Employees' Retirement Plan, Continued**

Defined Benefit Plan, Continued

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

*Pension Liability.* At September 30, 2023 and 2022, the Center reported a liability of \$3,185,695 and \$3,185,695, 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, 2023 and 2022, the Center's proportion was 1.0449% and 1.0449%, respectively.

*Pension Expense.* For the year ended September 30, 2023 and 2022, the Center recognized pension expense of \$0 and \$34,828 respectively.

*Deferred Outflows and Inflows of Resources.* At September 30, 2023 and 2022, the Center reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 78,325	\$ 517,218	\$ 78,325	\$ 517,218
Net difference between projected and actual earnings on investments	4,482	20,401	4,482	20,401
Change of assumptions	609,930	158,542	609,930	158,542
Authority contributions subsequent to the measurement date	-	-	-	-
Change in proportion and difference between the Center's contributions and proportionate share of contributions	<u>595,975</u>	<u>67,042</u>	<u>595,975</u>	<u>67,042</u>
Total	<u>\$ 1,288,712</u>	<u>\$ 763,203</u>	<u>\$ 1,288,712</u>	<u>\$ 763,203</u>

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, 2021 will be recognized in pension expense.

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(4) Due from Grantor Agencies**

The Center is a direct recipient of contract awards received from the United Nations, Micronesia Conservation Trust, Italy Government, National Geographic Society, and Rockefeller Philanthropy Advisors. Excess grant disbursements over receipts are recognized as due from grantor agencies until such funds are received in accordance with grant terms and conditions.

Changes in the due from grantor agency account for the years ended September 30, 2023 and 2022 are as follows:

	2023	2022
Balance at beginning of year	\$ 217,823	\$ 304,816
Deductions - cash receipts from grantor agencies	(1,578,482)	(1,065,622)
Additions - program outlays	1,563,613	978,629
Balance at end of year	\$ 202,954	\$ 217,823

**(5) Donated Capital Assets**

During the fiscal year ended September 30, 2023, the Center received a donated truck and research marine vessel from the Japan International Cooperation Agency (JICA). The donation was a voluntary nonexchange transaction accounted for in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

The donated capital assets were recorded at their acquisition value (fair market value at the date of donation) was \$116,005 for vessel and \$45,995 for truck totaling \$162,000 and are included in capital assets. The Center determined that all eligibility requirements, if any, were met at the date of receipt; therefore, contribution revenue was recognized during the fiscal year.

The donated marine vessel and truck are being depreciated using the straight-line method over their estimated useful lives for 10 years and 5 years, respectively.

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(6) Capital Assets**

Capital asset activities for the years ended September 30, 2023 and 2022, are as follows:

	Estimated Useful Lives	Balance at October 1, 2022	Additions	Deletions	Balance at September 30, 2023
Buildings	10-30 years	\$ 4,368,472	\$ 50,305	\$ -	\$ 4,418,777
Mechanical, electric, research office exhibit and marine equipment	2- 15 years	1,838,745	173,919	(10,670)	2,001,994
Aquarium	7 years	1,599,246	5,488	-	1,604,734
Furniture and fixtures	5 years	105,478	-	-	105,478
Computers	5 years	78,620	38,022	(20,820)	95,822
Vehicles	5 years	58,788	45,995	-	104,783
CIP in Progress		-	-	-	-
		8,049,349	313,729	(31,490)	8,331,588
Accumulated depreciation		(6,642,898)	(174,897)	(381)	(6,818,176)
		<u>\$ 1,406,451</u>	<u>\$ 138,832</u>	<u>\$ (31,871)</u>	<u>\$ 1,513,412</u>
	Estimated Useful Lives	Balance at October 1, 2021	Additions	Deletions	Balance at September 30, 2022
Buildings	10-30 years	\$ 4,270,932	\$ 97,540	\$ -	\$ 4,368,472
Mechanical, electric, research office exhibit and marine equipment	2- 15 years	1,859,598	-	(20,853)	1,838,745
Aquarium	7 years	1,597,826	1,420	-	1,599,246
Furniture and fixtures	5 years	105,223	255	-	105,478
Computers	5 years	38,062	56,920	(16,362)	78,620
Vehicles	5 years	56,288	2,500	-	58,788
CIP in Progress		29,262	-	(29,262)	-
		7,957,191	158,635	(66,477)	8,049,349
Accumulated depreciation		(6,502,475)	(140,423)	-	(6,642,898)
		<u>\$ 1,454,716</u>	<u>\$ 18,212</u>	<u>\$ (66,477)</u>	<u>\$ 1,406,451</u>

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(7) Inventories**

Inventories as of September 30, 2023 and 2022, consist of the following:

	2023	2022
Merchandise	\$ 17,860	\$ 3,410
Spare parts	-	1,917
	\$ 17,860	\$ 5,327

**(8) Noncurrent Liabilities**

A summary of changes in noncurrent liabilities during fiscal year ended September 30, 2023 and 2022 is as follows:

	Outstanding October 1, 2022	Decreases	Increases	Outstanding September 30, 2023	Current	Noncurrent
Net Pension Liability	\$ 3,185,695	\$ -	\$ -	\$ 3,185,695	\$ -	\$ 3,185,695
	\$ 3,185,695	\$ -	\$ -	\$ 3,185,695	\$ -	\$ 3,185,695
	Outstanding October 1, 2021	Decreases	Increases	Outstanding September 30, 2022	Current	Noncurrent
Net Pension Liability	\$ 3,269,246	\$ 83,551	\$ -	\$ 3,185,695	\$ -	\$ 3,185,695
	\$ 3,269,246	\$ 83,551	\$ -	\$ 3,185,695	\$ -	\$ 3,185,695

**(9) Republic of Palau**

During the year ended September 30, 2023 and 2022, the Center recorded appropriations for operations of \$360,000 and \$360,000, respectively.

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

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(10) 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.

**(11) Reclassifications**

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net position.

**(12) Date of Management's Review**

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through February 25, 2026 which is the date the financial statements were available to be issued. The Center has determined that none of the events occurring after the date of the statement of net position substantially affects the amounts, presentation, and disclosure of the accompanying financial statements.

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

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013
Civil Service Pension Trust Fund (Plan) total net pension liability	\$ 304,866,042	\$ 344,384,167	\$ 308,480,463	\$ 250,868,784	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232	\$ 182,080,330
The Center's proportionate share of the net pension liability	\$ 3,185,695	\$ 3,269,246	\$ 2,548,629	\$ 1,898,628	\$ 2,098,212	\$ 2,078,159	\$ 1,565,921	\$ 1,783,171	\$ 1,580,457
The Center's proportionate share of the net pension liability	1.045%	0.949%	0.826%	0.757%	0.809%	0.833%	0.726%	0.873%	0.868%
The Center's covered-employee payroll**	\$ 630,150	\$ 582,200	\$ 493,733	\$ 443,983	\$ 468,617	\$ 441,236	\$ 352,326	\$ 410,366	\$ 321,633
The Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	505.55%	561.53%	516.20%	427.64%	447.75%	470.99%	444.45%	434.53%	491.39%
Plan Fiduciary net position as a percentage of the total pension liability	19.78%	17.81%	19.37%	23.38%	22.33%	21.23%	22.50%	23.01%	20.35%

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

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

See accompanying Independent Auditors' Report.

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

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarially determined contribution	\$ 161,633	\$ 149,561	\$ 116,417	\$ 131,021	\$ 138,960	\$ 120,112	\$ 79,187	\$ 92,733	\$ 54,602
Contribution in relation to the actuarially determined contribution	<u>37,809</u>	<u>34,932</u>	<u>29,624</u>	<u>26,639</u>	<u>28,117</u>	<u>26,111</u>	<u>20,999</u>	<u>24,165</u>	<u>21,838</u>
Contribution (excess) deficiency	<u>\$ 123,824</u>	<u>\$ 114,629</u>	<u>\$ 86,793</u>	<u>\$ 104,382</u>	<u>\$ 110,843</u>	<u>\$ 94,001</u>	<u>\$ 58,188</u>	<u>\$ 68,568</u>	<u>\$ 32,764</u>
Center's covered-employee payroll	<u>\$ 630,150</u>	<u>\$ 582,200</u>	<u>\$ 493,733</u>	<u>\$ 443,983</u>	<u>\$ 468,617</u>	<u>\$ 441,236</u>	<u>\$ 352,326</u>	<u>\$ 410,366</u>	<u>\$ 321,633</u>
Contribution as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%	5.92%	5.96%	5.89%	6.79%

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

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

See accompanying Independent Auditors' Report.

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

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

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**Year Ended September 30, 2023**



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

To the Board of Directors  
Palau International Coral Reef Center:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Palau International Coral Reef Center (the “Center”), which comprise the statement of net position as September 30, 2023, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated February 25, 2026.

**Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses, that we consider to be a material weakness as item 2023-001.

## **Report on Compliance and Other Matters**

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

## **The Center's Responses to Findings**

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

## **Purpose of this Report**

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



Koror, Republic of Palau  
February 25, 2026

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

Schedule of Findings and Responses  
Year Ended September 30, 2023

**Finding: 2023-001**

**Area: Internal Control Over Financial Reporting – General Ledger Reconciliations**

**Criteria:**

The Standards for Internal Control in the Federal Government (GAO Green Book) and the COSO Internal Control Framework require management to establish and maintain effective internal control systems to ensure reliable financial reporting.

Specifically:

- Green Book Principle 10 – Control Activities: Management should design control activities to achieve objectives and respond to risks.
- Green Book Principle 16 – Monitoring: Management should establish and operate monitoring activities to evaluate the effectiveness of internal control.

In addition, Government Auditing Standards (GAGAS) require auditors to evaluate whether internal controls are properly designed and implemented to provide reasonable assurance regarding the reliability of financial reporting (GAGAS §§8.04–8.05).

Sound financial management practices require that:

- Significant general ledger accounts be reconciled on a periodic basis, generally monthly.
- Financial balances be supported by adequate documentation and reconciliation schedules.
- Financial statements be reviewed by qualified personnel prior to issuance.
- Accounting personnel possess the appropriate knowledge and competencies necessary to perform financial reporting responsibilities (GAGAS §9.03).

These procedures are necessary to ensure that errors or irregularities are detected and corrected in a timely manner.

**Condition:**

During our audit, we noted that the Center did not consistently perform timely reconciliations of several significant general ledger accounts, and supporting reconciliation documentation was not available for audit review for certain accounts.

In addition, several versions of financial statements provided during the audit process contained errors and inconsistencies, including statements prepared for incorrect reporting periods.

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

Schedule of Findings and Responses  
Year Ended September 30, 2023

**Finding: 2023-001, Continued**

**Area: Internal Control Over Financial Reporting – General Ledger Reconciliations**

**Condition: (Continued)**

The accounts affected included, but were not limited to:

1. Investments
2. Grants receivable
3. Due to/Due from accounts (interfund balances)
4. Capital assets and accumulated depreciation
5. Accounts payable
6. Accrued payroll liabilities
7. Deferred revenue and grant revenue
8. Net position
9. Investment interest income
10. Investment management fees
11. Unrealized gains and losses on investments

As a result, management was unable to demonstrate that these accounts were reconciled and reviewed periodically and timely basis to ensure the accuracy and completeness of reported balances.

**Cause:**

Based on discussions with management and our review of internal control processes, the condition appears to be primarily attributable to:

- Limited accounting personnel with specialized governmental accounting expertise, and
- The absence of formalized policies and procedures requiring periodic reconciliation and supervisory review of general ledger accounts and financial reporting processes.

**Effect:**

Failure to perform timely reconciliations of significant general ledger accounts increases the risk that errors, omissions, or misclassifications may occur and remain undetected.

This condition did result in:

- Material misstatements in the financial statements
- Increased audit adjustments and additional audit procedures
- Delays in the completion of financial reporting
- Reduced reliability of financial information used by the Board of Directors

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

Schedule of Findings and Responses  
Year Ended September 30, 2023

**Finding: 2023-001, Continued**

**Area: Internal Control Over Financial Reporting – General Ledger Reconciliations**

**Prior Year Status:**

Failure to perform timely reconciliations of significant general ledger accounts increases the risk that errors, omissions, or misclassifications may occur and remain undetected.

This condition may result in:

- Material misstatements in the financial statements
- Delays in the completion of financial reporting
- Reduced reliability of financial information used by management and governing authorities
- Increased audit adjustments and additional audit procedures

Reliable financial reporting is necessary to demonstrate accountability to funding agencies, oversight bodies, and other stakeholders.

**Recommendation:**

We recommend that the Center strengthen internal controls over financial reporting by implementing the following actions:

1. Establish formal policies and procedures requiring monthly reconciliations of all significant general ledger accounts.
2. Develop and implement a documented monthly and year-end financial closing process, including defined timelines and assigned responsibilities.
3. Provide additional training or technical assistance to accounting personnel in governmental accounting, grant accounting, and financial reporting requirements.
4. Implement supervisory review procedures to ensure reconciliations and financial statements are reviewed for accuracy and completeness prior to submission.
5. Maintain adequate documentation of reconciliations and financial statement revisions to support an effective audit trail and demonstrate compliance with internal control procedures.

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

Schedule of Findings and Responses  
Year Ended September 30, 2023

**Finding: 2023-001, Continued**

**Area: Internal Control Over Financial Reporting – General Ledger Reconciliations**

**Views of Responsible Officials and Corrective Action Plan**

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

Management concurs with the finding and will implement procedures to ensure that reconciliations of significant general ledger accounts are performed on a timely and consistent basis. Management also plans to provide training to accounting personnel and strengthen internal control procedures over financial reporting.

**Estimated Completion Date:** Fiscal Years 2024–2026