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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau International Coral Reef Center:

We have audited the accompanying statements of net assets of the Palau International Coral Reef Center (the Center), a component unit of the Republic of Palau, as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Center as of September 30, 2009 and 2008, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Center's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2010, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

May 27, 2010

PALAU INTERNATIONAL CORAL REEF CENTER

Management's Discussion and Analysis
Fiscal Year Ended September 30, 2009

This Management's Discussion and Analysis of the Palau International Coral Reef Center (the Center) provides an overview to the financial activities and performance of the Center for the fiscal year ended September 30, 2009.

ORGANIZATION AND MISSION

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

The project received funding of US $7.3 million from the Government of Japan for the construction of the Center. The construction commenced in November 1999 and the facility opened in January 2001. Located on an 8,248 square meter pier, the Center features three main buildings: a research facility, visitor education and awareness exhibit areas, and an administration complex.

To achieve its mission, the Center developed and adopted its Strategic Plan 2002-2006 (phase 1) with goals and objectives to guide it towards a self-sustaining center of excellence for marine research, training and educational activities. The strategic plan focuses the Center's activities in five program areas - research, environmental education and public awareness, aquarium exhibits, institutional development and income generation, and engineering and maintenance - as key to becoming a center of excellence in self-sustained research and educational programs. In September 2006 when phase 1 of the Palau International Coral Reef Center Strengthening Project was completed, the Center developed and adopted Strategic Plan 2007-2012, which is phase 2 of the project with the same focus on the five program areas, but with a regional focus. That is, sharing what we have learned over the years with our neighbors in the Micronesia region by way of collaboration, sharing and transfer of knowledge, and capacity building.

In search of technical assistance to support phase 2 of the project, the Center submitted a proposal to the Government of Japan in August 2006 entitled, *Palau International Coral Reef Center Strengthening Project Phase II - Implementation of Locally and Regionally Identified Key Research Priorities for Management in Palau and Micronesia*. Unfortunately, this proposal was not approved for Japanese Fiscal Year (JFY) 2007. The official response from the Government of Japan was that, "If the Palauan Government wishes to reapply this request for JFY 2008, it is necessary to resubmit the application format this year with improved and more convincing data and materials". We revised the proposal and resubmitted it in August 2007, this time entitled, *PALAU INTERNATIONAL CORAL REEF CENTER REQUEST FOR TECHNICAL ASSISTANCE: Facilitating Implementation of the Micronesia Challenge through Process-Oriented Research: Capacity Building and Effective Management of Marine Protected Areas (MPAs) within the Context of the Protected Areas Network (PAN)*. This second submittal was approved, but negotiations were delayed, so implementation in JFY 2008 did not take place. Finally in November 2008, a team from Japan met with the Center's Board of Directors and staff to discuss details of the project, which has evolved to become, "Capacity Enhancement Project for Coral Reef Monitoring" and will be implemented from July 2009 - July 2012.

FINANCIAL STATEMENTS

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

OVERVIEW OF FINANCIAL OPERATIONS

A decrease of 14% in operating revenues resulted from $566,058 in fiscal year 2008 to $484,095 in fiscal year 2009. Total tourist arrivals to Palau from the Republic of China-Taiwan (ROC-Taiwan) decreased by 35%, 14,814 in fiscal year 2009 versus 22,756 in fiscal year 2008. Total tourist arrivals to Palau from all markets was 73,365 in fiscal year 2009 and the Palau Aquarium captured 18,543 of them, which is a 25% market share, 1% up from fiscal year 2008. Of the 18,543 visitors to the Center, only 1,403 (8%) were from ROC-Taiwan, a 14% decrease from fiscal year 2008 arrivals of 1,627. The Korean market maintained its level by bringing in 14,251 visitors to Palau, of which 12,185 visited the Center. This translates into an 86% share in FY09, same level as FY08. 28,435 Japanese visited Palau in FY09, and the Center received only 10% (2,836) of them. All other markets made up largely of Palauan visitors, visitors from the U.S. mainland, Philippines, the People's Republic of China (PRC) and Guam contributed 10% (1,825) of visitors to the Center. Despite increases in facility user and admissions fees (1%), donations (77%), boat fee (245%) and accommodation (31%), it was not enough to offset the 14% decrease in overall operating revenues, which resulted from decreases in grants (12%), merchandise sales (16%), fundraising (36%), research facilities (61%) and education program fee (76%).

An increase of 8% in operating revenues resulted from $523,228 in fiscal year 2007 to $566,058 in fiscal year 2008. A decrease of 26% in operating revenues resulted from $705,688 in fiscal year 2006 to $523,228 in fiscal year 2007. Total tourist arrivals to Palau from the Republic of China-Taiwan decreased by 22%, 22,756 in fiscal year 2008 versus 29,147 in fiscal year 2007. Total tourist arrivals to Palau from all markets was 81,123 in fiscal year 2008, and the Palau Aquarium captured 19,396 of them, which is a 24% market share. Of the 19,396 visitors to the Center, only 1,627 (8%) were from ROC-Taiwan, a 57% decrease from fiscal year 2007 arrivals of 3,788. The Korean market continued its upward trend by bringing in 14,302 visitors to Palau, of which 12,298 visited the Center. This is an 86% share in FY08, up 2% from FY07. This increase in arrivals from Korea did not reflect an increase in admission fees due to the big drop in Taiwanese arrivals. 28,727 Japanese tourists visited Palau in FY08, and the Center received only 10% (2,874) of them. All other markets made up largely of Palauan visitors, visitors from the U.S. mainland, Philippines, and Guam contributed 13% (2,597) of visitors to the Center. Increase in research facilities (88%), accommodation (257%), and education program fee (535%) contributed to the 8% increase in operating revenues, provided further offset, and prevented further loss of operating revenues.

Operating expenses decreased by 5% from $1,326,909 in FY08 to $1,265,641 in FY09. This is attributed largely to decreases in salaries, wages and fringe benefits (9%), travel (50%), utilities (4%), fuel (26%) and repairs and maintenance (61%). Personnel expenses decreased slightly by 9% due to vacant positions such as the Development Officer (DO) position. Other positions in Administration, Research and Aquarium were eventually filled, but the DO position remains vacant. Notable increases in expenses are in supplies and printing (29%), professional fees (357%) and merchandise cost (49%). There was less travel in FY09; instead, we invited experts/collaborators to the Center to help with capacity building, as reflected in increased professional fees. Although depreciation expense showed an 8% decrease, it is still high and it inflates total operating loss by $299,358 in FY09, accompanied by a decrease in total net assets of $355,331. This is a 13% decrease in total net assets in FY09 over FY08 ($2,312,120 versus $2,667,451).

Operating expenses decreased by 13% from $1,520,257 in FY07 to $1,326,909 in FY08. This is attributed largely to decreases in merchandise cost (57%), fuel (14%), sales and marketing (37%) and entertainment (88%). Personnel expenses increased slightly by 2% due to salary increments. Notable increases in expenses are in supplies and printing (17%), utilities (13%), insurance (19%) and training (120%). Although depreciation expense showed a 37% decrease, it is still high and it inflates total operating loss by $325,526 in FY08, accompanied by a decrease in total net assets of $334,033. This is an 11% decrease in total net assets in FY08 over FY07 ($2,667,451 versus $3,001,484). Grant revenues went up 27% ($311,290) in FY08 versus $245,940 in FY07.

A summary of operations, changes in net assets and cash flows for the fiscal years ended September 30, 2009, 2008 and 2007 follows:

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009, 2008 and 2007

	2009	2008	Increase (Decrease) from 2008	2007
Operating revenues:				
Grants	$ 274,679	$ 311,290	-12%	$ 245,940
Facility user and admission fees	91,378	90,918	1%	92,196
Merchandise sales	31,784	37,874	-16%	63,627
Donations	26,901	15,225	77%	30,885
Fund raising	26,778	41,657	-36%	51,989
Boat fee	14,974	4,338	245%	23,513
Research facilities	8,459	21,854	-61%	11,614
Accommodation	7,790	5,933	31%	1,660
Education program fee	747	3,175	-76%	500
Other	605	33,794	-98%	1,304
Total operating revenues	**484,095**	**566,058**	**-14%**	**523,228**
Operating expenses:				
Salaries, wages and fringe benefits	461,684	507,157	-9%	495,277
Depreciation	299,358	325,526	-8%	516,624
Utilities	133,922	139,917	-4%	124,141
Supplies and printing	127,736	99,121	29%	91,470
Professional services	67,491	14,782	357%	18,669
Travel	42,791	85,063	-50%	84,030
Merchandise cost	29,038	19,543	49%	45,747
Insurance	17,967	21,160	-15%	17,725
Bad debts	16,849	34,176	-51%	103
Fuel	13,571	18,330	-26%	21,227
Communications`	11,429	10,852	5%	11,763
Anniversary	10,649	8,255	29%	24,705
Sales and marketing	9,664	7,018	38%	11,902
Repairs and maintenance	4,400	11,229	-61%	11,829
Postage and freight	2,266	2,808	-19%	3,574
Entertainment	1,978	675	193%	5,400
Dues and subscriptions	166	-	100%	1,209
Training	35	4,290	-99%	1,949
Honorariums and meetings	-	-	0%	657
Other	14,647	17,007	-14%	32,256
Total operating expenses	**1,265,641**	**1,326,909**	**-5%**	**1,520,257**
Operating loss	**(781,546)**	**(760,851)**	**3%**	**(997,029)**
Nonoperating revenues:				
Appropriations	425,000	425,000	0%	450,000
Other income	-	-	0%	28,371
Interest income	1,215	1,818	-33%	173
Total nonoperating revenues	**426,215**	**426,818**	**-0%**	**478,544**
Change in net assets	**(355,331)**	**(334,033)**	**6%**	**(518,485)**
Net assets at beginning of year	**2,667,451**	**3,001,484**	**-11%**	**3,519,969**
Net assets at end of year	**$ 2,312,120**	**$ 2,667,451**	**-13%**	**$ 3,001,484**

Statements of Cash Flows
Years Ended September 30, 2009, 2008 and 2007

	2009	2008	Increase (Decrease) from 2008	2007
Cash flows from operating activities	$ (387,800)	$ (508,273)	-24%	$ (467,166)
Cash flows from noncapital financing activities	473,319	465,481	2%	475,777
Cash flows from capital and related financing activities	(43,630)	(11,256)	288%	(47,722)
Cash flows from investing activities	65,443	(1,752)	-3835%	(63,691)
Net increase (decrease) in cash	**107,332**	**(55,800)**	**-3%**	**(102,802)**
Cash at beginning of year	**56,148**	**111,948**	**-50%**	**214,750**
Cash at end of year	**$ 163,480**	**$ 56,148**	**191%**	**$ 111,948**

OVERVIEW OF FINANCIAL POSITION

Total current assets decreased by 5% in FY09 over FY08 ($338,773 versus $358,323), because of a 191% increase in cash on hand at 2009 fiscal year end ($163,480 versus $56,148). There are no Republic of Palau receivables in FY09. This is positive in that we received our allotments on time, but it contributed to the reduction in current assets at 2009 fiscal year end. There is a 227% increase in grantor agencies receivables in FY09 over FY08 ($61,911 versus $18,951) since most grant disbursements are multi-year grants that have not been received. Grant receipts are initially posted as deferred revenues waiting to be expensed as projects are implemented. Due to a decreased, yet still high rate of depreciation, total assets decreased by 9% in FY09 over FY08 ($2,680,921 versus $2,956,199).

As the Center continues to grow and operate, it incurs expenses and recognizes revenues as projects are implemented. As such, accounts payable shows a 16% increase ($84,891 versus $73,202) in FY09 over FY08 and deferred revenues increased by 48% ($212,026 versus $143,484). Unrestricted net assets decreased by 143% in FY09 over FY08 ($(30,028) versus $69,575). At fiscal year end, the time certificate of deposit had matured and was not continued. As of September 30, 2009, the Center had $2,342,148 invested in capital assets versus $2,597,876 in FY08, a 10% decrease, net of applicable accumulated depreciation.

Total current assets decreased by 15% in FY08 over FY07 ($358,323 versus $419,386), most notably due to a 50% decrease in cash on hand at 2008 fiscal year end ($56,148 versus $111,948), as well as a 45% decrease in Republic of Palau receivables. This is positive in that we received our allotments on time, but it contributed to the reduction in current assets at 2008 fiscal year end. There was no change in grantor agencies receivables since most grant disbursements have been received and posted as deferred revenues waiting to be expensed as projects are implemented. Due to a decreased, yet still high rate of depreciation, total assets decreased by 11% in FY08 over FY07 ($2,956,199 versus $3,331,532). Accounts payable more than doubled ($73,202 versus $35,285) in FY08 over FY07, and deferred revenues decreased by 35% ($143,484 versus $221,096). At fiscal year end, the time certificate of deposit (TCD) is showing a 3% increase ($65,443 versus $63,691). As of September 30, 2008, the Center had $2,597,876 invested in capital assets versus $2,912,146 in FY07, an 11% decrease, net of applicable accumulated depreciation.

Capital Assets

At September 30, 2009, 2008 and 2007, the Center had $2,342,148, $2,597,876 and $2,912,146, respectively, invested in capital assets, net of accumulated depreciation where applicable, including buildings, mechanical, electrical, research, office, exhibit and marine equipment, aquarium, furniture and fixtures, computers and vehicles, which represents a net decrease in 2009 of $255,728 or 10% over 2008 and in 2008 of $314,270 or 11% over 2007. See note 5 to the financial statements for more information on the Center's property, plant and equipment.

A summary of the Center's statements of net assets at September 30, 2007, 2006 and 2005 is shown below:

Statements of Net Assets
September 30, 2009, 2008 and 2007

	2009	2008	Increase (Decrease) from 2008	2007
Current assets:				
Cash	$ 163,480	$ 56,148	191%	$ 111,948
Time certificate of deposit	-	65,443	-100%	63,691
Receivables:				
Republic of Palau	-	47,104	-100%	85,767
Grantor agencies	61,911	18,951	227%	18,951
Other	106,330	116,544	-9%	48,283
	168,241	182,599	-8%	153,001
Less allowance for doubtful accounts	(94,324)	(77,475)	22%	(43,299)
Total receivables, net	73,917	105,124	-30%	109,702
Inventories	92,344	110,277	-16%	118,856
Prepaid expense	9,032	21,331	-58%	15,189
Total current assets	**338,773**	**358,323**	**-5%**	**419,386**
Property, plant and equipment, net	2,342,148	2,597,876	-10%	2,912,146
Total assets	**$ 2,680,921**	**$ 2,956,199**	**-9%**	**$ 3,331,532**
Current liabilities:				
Accounts payable	$ 84,891	$ 73,202	16%	$ 35,285
Deferred revenue	212,026	143,484	48%	221,096
Accrued expenses	71,884	72,062	-0%	73,667
Total current liabilities	**368,801**	**288,748**	**28%**	**330,048**
Net assets:				
Invested in capital assets	2,342,148	2,597,876	-10%	2,912,146
Unrestricted	(30,028)	69,575	-143%	89,338
Total net assets	**2,312,120**	**2,667,451**	**-13%**	**3,001,484**
Total liabilities and net assets	**$ 2,680,921**	**$ 2,956,199**	**-9%**	**$ 3,331,532**

ECONOMIC OUTLOOK

Prices at the pump continue to fluctuate as has utility charges. At the Center, we are still faced with expense and cash flow issues. The Center's FY08 budget was cut by $25,000 (from $450,000 to $425,000), and in FY10 by $42,000 (a 10% reduction from FY09) ($383,000 proposed budget submitted to OEK versus our request of $450,000). But there is still room for optimism. Total Korean arrivals to Palau maintained its current market share (FY09 similar to FY08), both for Palau and the Center. Korean arrivals are consistent and look very optimistic, so similar trends may continue into FY10. Also, the Japan market remains steady, and China arrivals are showing a small increase. We have come to an agreement with the Government of Japan, through JICA, in terms of scope and extent of technical assistance. For the next three years (July 2009 to July 2012), JICA will be providing technical assistance of approximately $2 million in the form of 1) dispatch of experts to PICRC who could be from Japan or other countries; 2) provision of machinery and equipment; and 3) training of PICRC staff in Japan or other countries. This phase 2 project is termed, *"Capacity Enhancement Project for Coral Reef Monitoring."* One of its outputs is to develop monitoring protocols for Palau that could be used for the Micronesia region. The second output is to enhance the partnerships between the Center and international initiatives, the five Micronesia Challenge jurisdictions (FSM, RMI, Guam, CNMI, and Palau), related organizations and research institutes. In addition to technical assistance from JICA for this project, we may be able to receive assistance from the Micronesia Challenge jurisdictions as well as international donors. After all, these monitoring protocols will go to benefit the whole region in helping all to achieve the goals of the Micronesia Challenge. Lastly, in April 2009, we revised the fee structure at the Center. We increased the rates, for the first time since we opened, by 15%. We will be monitoring this while we continue to improve our services and product offerings to both tourists and residents.

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. The Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in the report on the audit of the Center's financial statements which is dated November 10, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements. If you have questions about the 2008 or 2007 reports, or need additional information, please contact the Chief Executive Officer at the Palau International Coral Reef Center, P.O. Box 7086, Koror, Republic of Palau 96940, or e-mail fiyar@picrc.org or call 488-6950.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Net Assets
September 30, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash	$ 163,480	$ 56,148
Time certificate of deposit	-	65,443
Receivables:		
Grantor agencies	61,911	18,951
Republic of Palau	-	47,104
Other	106,330	116,544
	168,241	182,599
Less allowance for doubtful accounts	(94,324)	(77,475)
Total receivables, net	73,917	105,124
Inventories	92,344	110,277
Prepaid expense	9,032	21,331
Total current assets	338,773	358,323
Property, plant and equipment, net	2,342,148	2,597,876
	$ 2,680,921	$ 2,956,199
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 84,891	$ 73,202
Deferred revenue	212,026	143,484
Accrued expenses	71,884	72,062
Total current liabilities	368,801	288,748
Net assets:		
Invested in capital assets	2,342,148	2,597,876
Unrestricted	(30,028)	69,575
Total net assets	2,312,120	2,667,451
	$ 2,680,921	$ 2,956,199

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Grants	$ 274,679	$ 311,290
Facility user and admission fees	91,378	90,918
Merchandise sales	31,784	37,874
Donations	26,901	15,225
Fund raising	26,778	41,657
Boat fee	14,974	4,338
Research facilities	8,459	21,854
Accomodation	7,790	5,933
Education program fee	747	3,175
Other	605	33,794
Total operating revenues	484,095	566,058
Operating expenses:		
Salaries, wages and fringe benefits	461,684	507,157
Depreciation	299,358	325,526
Utilities	133,922	139,917
Supplies and printing	127,736	99,121
Professional services	67,491	14,782
Travel	42,791	85,063
Merchandise cost	29,038	19,543
Insurance	17,967	21,160
Bad debts	16,849	34,176
Fuel	13,571	18,330
Communications	11,429	10,852
Anniversary	10,649	8,255
Sales and marketing	9,664	7,018
Repairs and maintenance	4,400	11,229
Postage and freight	2,266	2,808
Entertainment	1,978	675
Dues and subscriptions	166	-
Training	35	4,290
Other	14,647	17,007
Total operating expenses	1,265,641	1,326,909
Operating loss	(781,546)	(760,851)
Nonoperating revenues:		
Appropriations	425,000	425,000
Interest income	1,215	1,818
Total nonoperating revenues	426,215	426,818
Change in net assets	(355,331)	(334,033)
Net assets at beginning of year	2,667,451	3,001,484
Net assets at end of year	$ 2,312,120	$ 2,667,451

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 550,123	$ 422,622
Cash payments to suppliers for goods and services	(476,061)	(422,133)
Cash payments to employees for services	(461,862)	(508,762)
Net cash used for operating activities	(387,800)	(508,273)
Cash flows from noncapital financing activities:		
Appropriations	472,104	463,663
Interest received	1,215	1,818
Net cash provided by noncapital financing activities	473,319	465,481
Cash flows from capital and related financing activities:		
Property, plant and equipment acquisitions	(43,630)	(11,256)
Net cash used for capital and related financing activities	(43,630)	(11,256)
Cash flows from investing activities:		
Proceeds from (purchase of) time certificate of deposit	65,443	(1,752)
Net cash provided by (used for) investing activities	65,443	(1,752)
Net increase (decrease) in cash	107,332	(55,800)
Cash at beginning of year	56,148	111,948
Cash at end of year	$ 163,480	$ 56,148
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (781,546)	$ (760,851)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	299,358	325,526
Bad debts	16,849	34,176
(Increase) decrease in assets:		
Receivables grantor agencies	(42,960)	-
Receivables, other	10,214	(68,261)
Inventories	17,933	8,579
Prepaid expense	12,299	(6,142)
Increase (decrease) in liabilities:		
Accounts payable	11,689	37,917
Deferred revenue	68,542	(77,612)
Accrued expenses	(178)	(1,605)
Net cash used for operating activities	$ (387,800)	$ (508,273)

See accompanying notes to financial statements.

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

The accounting policies of the Center conform to accounting principles generally accepted in the United States of America, as applied to government entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Center has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Basis of Accounting

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

Cash and Time Certificate of Deposit

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

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

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

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

(2) Summary of Significant Accounting Policies, Continued

Cash and Time Certificate of Deposit, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Center does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts. Deposits made in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2009 and 2008, cash was $163,480 and $56,148, respectively, and the corresponding bank balances were $162,140 and $62,883, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2009 and 2008 total time certificates of deposit and the corresponding bank balance was $-0- and $65,443, respectively. At September 30, 2009 and 2008, bank deposits in the amount of $162,140 and $103,415, respectively, were FDIC insured. The Center does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

In line with the Center's Strategic Plan to become self-sustaining, cash amounts of $104,109 and $87,796 have been internally restricted as of September 30, 2009 and 2008, respectively. These restricted funds consist of solicited donations and a portion of operating revenues designated by the Board.

Inventories

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

Allowance for Doubtful Accounts

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

Property, Plant and Equipment

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

(2) Summary of Significant Accounting Policies, Continued

Deferred Revenue

Deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. Deferred revenue results from funds received through various grants.

Retirement Plan

The Center contributes to the Palau Civil Service Pension Trust Fund (the Fund), a defined benefit, cost-sharing, multi-employer pension plan established and administered by the Republic of Palau. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Palau 96940.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic of Palau, Republic of Palau State Governments and Republic of Palau agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are the credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. Members who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. RPPL 2-26 is the authority under which benefit provisions are established. Member contribution rates are established by RPPL 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. The Center contributed $22,943, $26,551 and $26,098 to the Fund during the fiscal years 2009, 2008 and 2007, respectively, which were equal to the required contributions for each year.

Under the provisions of RPPL 2-26, the Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law, and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. The Center's payroll for the years ended September 30, 2009 and 2008 was covered by the Fund's pension plan. The Fund utilizes the actuarial cost method termed "agreement cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 8.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

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

The Fund's October 1, 2007 actuarial valuation determined the unfunded pension benefit obligation as follows:

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

Participants in pay status	$ 48,968,000
Active participants	46,002,000
Participants with vested deferred benefits	903,000
Total pension benefit obligation	95,873,000
Net assets available for benefits, at market value	48,358,000
Unfunded benefit obligation	$ 47,515,000

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

Compensated Absences

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

Taxes

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

Estimates

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

Operating and Non-Operating Revenues and Expenses

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

Net Assets

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

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

(2) Summary of Significant Accounting Policies, Continued

Net Assets, Continued

- Restricted: net assets subject to externally imposed stipulations that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time. The Center does not have restricted net assets.

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

New Accounting Standards

During fiscal year 2009, the Center implemented the following pronouncements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Center.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Center.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Center.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Center.

(3) Due From Grantor Agencies

The Center is a direct recipient of a contract award received from the Australian Institute of Marine Science, the David and Lucile Packard Foundation, the National Oceanic and Atmospheric Administration, The United Nations Office of Project Services, The United Nations Educational, Scientific, and Cultural Organization, Micronesia Conservation Trust, the University of New Hampshire and the University of Hawaii. Excess grant disbursements over receipts are recognized as due from grantor agencies until such funds are received in accordance with grant terms and conditions.

Changes in the due from grantor agency account for the years ended September 30, 2009 and 2008 are as follows:

	2009	2008
Balance at beginning of year	$ 18,951	$ 18,951
Deductions - cash receipts from grantor agency	(316,600)	(233,678)
Additions - program outlays	291,018	311,290
Increase (decrease) in deferred revenue	68,542	(77,612)
Balance at end of year	$ 61,911	$ 18,951

(4) Inventories

Inventories as of September 30, 2009 and 2008, consist of the following:

	2009	2008
Spare parts	$ 72,935	$ 77,489
Merchandise	19,409	32,788
	$ 92,344	$ 110,277

(5) Property, Plant and Equipment

Property, plant and equipment as of September 30, 2009 and 2008, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2008	Additions	Deletions	Balance at September 30, 2009
Buildings	10 - 30 years	$ 3,649,000	$ -	$ -	$ 3,649,000
Mechanical, electrical, research, office, exhibit and marine equipment	2 - 15 years	1,963,955	18,557	-	1,982,512
Aquarium	7 years	1,579,364	9,173	-	1,588,537
Furniture and fixtures	5 years	175,341	-	-	175,341
Computers	5 years	91,952	-	-	91,952
Vehicles	3 years	70,247	15,900	-	86,147
		7,529,859	43,630	-	7,573,489
Less accumulated depreciation		(4,931,983)	(299,358)	-	(5,231,341)
		$ 2,597,876	$ (255,728)	$ -	$ 2,342,148

	Estimated Useful Lives	Balance at October 1, 2007	Additions	Deletions	Balance at September 30, 2008
Buildings	10 - 30 years	$ 3,649,000	$ -	$ -	$ 3,649,000
Mechanical, electrical, research, office, exhibit and marine equipment	2 - 15 years	1,952,699	11,256	-	1,963,955
Aquarium	7 years	1,579,364	-	-	1,579,364
Furniture and fixtures	5 years	175,341	-	-	175,341
Computers	5 years	91,952	-	-	91,952
Vehicles	3 years	70,247	-	-	70,247
		7,518,603	11,256	-	7,529,859
Less accumulated depreciation		(4,606,457)	(325,526)	-	(4,931,983)
		$ 2,912,146	$ (314,270)	$ -	$ 2,597,876

(6) Republic of Palau

During each of the years ended September 30, 2009 and 2008, the Center received appropriations for operations of $425,000 through RPPLs 8-2 and 7-37, 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.

(7) 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.