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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

Deloitte.

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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, 2010 and 2009, 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, 2010 and 2009, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 8 to the financial statements, deferred revenue and net assets at beginning of year as of and for the year ended September 30, 2009 have been restated.

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 August 9, 2011, 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

August 9, 2011

PALAU INTERNATIONAL CORAL REEF CENTER

Management's Discussion and Analysis
Fiscal Year Ended September 30, 2010

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, 2010, with selected comparative information for the fiscal years ended September 30, 2009 and 2008.

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. This project is nearing completion of the second year of implementation, and the third year will be completed by July 2012.

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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

An increase of 15% in operating revenues resulted from $484,095 in fiscal year 2009 to $555,092 in fiscal year 2010. Total tourist arrivals to Palau from the Republic of China (ROC) increased by 52%, 22,514 in fiscal year 2010 versus 14,814 in fiscal year 2009. Total tourist arrivals to Palau from all markets was 81,934 in fiscal year 2010 and the Palau Aquarium captured 15,327 of them, which is a 19% market share, 6% down from fiscal year 2009. Of the 15,327 visitors to the Center, only 1,434 (9%) were from ROC, a 1% increase from fiscal year 2009. The Korean market brought in 13,980 visitors to Palau, of which 9,625 visited the Center which translates to a 69% share in fiscal year 2010, 17% less than fiscal year 2009. 27,561 Japanese tourists visited Palau in fiscal year 2010, and the Center received only 2,340 (8%) of them, which is 2% less compared to fiscal year 2009. Japanese visitors made up 15% of those who visited the Center in fiscal year 2010. All other markets made up largely of Palauan visitors, visitors from the U.S. mainland, the Philippines, the People's Republic of China (PRC) and Germany contributed 1,407 (9%) of visitors to the Center. Huge increases in grants (19%), donations (690%) and other revenues (1,305%) contributed to the 50% increase in operating revenues in fiscal year 2010, increases that may need to be looked at more closely.

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 fiscal year 2009, same level as fiscal year 2008. 28,435 Japanese visited Palau in fiscal year 2009, 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%).

Operating expenses decreased by 1% from $1,248,792 in fiscal year 2009 to $1,235,767 in fiscal year 2010 which is attributed largely to decreases in merchandise cost (35%), sales and marketing (77%), depreciation (22%) and anniversary (25%). Personnel expenses (salaries, wages and fringe benefits) increased by 9%, from $461,684 in fiscal year 2009 to $501,465 in fiscal year 2010, due to vacant positions in Administration, Research, and Aquarium that were filled. Notable increases in expenses include repairs and maintenance (58%), fuel (58%) and utilities (15%). Although depreciation expense decreased by 22%, it is still high and it inflates total operating loss by $100,453 in fiscal year 2010, accompanied by a decrease in net assets of $127,869. Net assets decreased by 5% in fiscal year 2010 over fiscal year 2009 ($2,213,304 versus $2,341,173).

Operating expenses decreased by 3% from $1,292,733 in fiscal year 2008 to $1,248,792 in fiscal year 2009. 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 fiscal year 2009; 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 fiscal year 2009, accompanied by a decrease in total net assets of $355,331. This is a 12% decrease in total net assets in fiscal year 2009 over fiscal year 2008 ($2,341,173 versus $2,696,504).

A summary of operations, changes in net assets and cash flows for the fiscal years ended September 30, 2010, 2009 and 2008 follows:

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2010, 2009 and 2008

	2010	2009	Increase (Decrease) from 2009	2008
Operating revenues:				
Grants	$ 327,793	$ 274,679	19%	$ 311,290
Facility user and admission fees	95,411	91,378	4%	90,918
Donations	42,926	26,901	60%	15,225
Merchandise sales	34,295	31,784	8%	37,874
Fund raising	21,858	26,778	-18%	41,657
Boat fee	13,104	14,974	-12%	4,338
Accommodation	7,671	7,790	-2%	5,933
Research facilities	2,562	8,459	-70%	21,854
Education program fee	970	747	30%	3,175
Other	8,502	605	1,305%	33,794
Total operating revenues	**555,092**	**484,095**	**15%**	**566,058**
Bad debts	(418)	(16,849)	-98%	(34,176)
	554,674	**467,246**	19%	**531,882**
Operating expenses:				
Salaries, wages and fringe benefits	501,465	461,684	9%	507,157
Depreciation	232,506	299,358	-22%	325,526
Utilities	153,747	133,922	15%	139,917
Supplies and printing	126,989	127,736	-1%	99,121
Professional services	79,799	67,491	18%	14,782
Travel	38,712	42,791	-10%	85,063
Fuel	21,393	13,571	58%	18,330
Merchandise cost	18,974	29,038	-35%	19,543
Insurance	15,073	17,967	-16%	21,160
Communications`	14,435	11,429	26%	10,852
Anniversary	7,987	10,649	-25%	8,255
Repairs and maintenance	6,942	4,400	58%	11,229
Sales and marketing	2,240	9,664	-77%	7,018
Other	15,505	19,092	-19%	24,780
Total operating expenses	**1,235,767**	**1,248,792**	**-1%**	**1,292,733**
Operating loss	**(681,093)**	**(781,546)**	**-13%**	**(760,851)**
Nonoperating revenues:				
Appropriations	382,500	425,000	-10%	425,000
Interest income	1,166	1,215	-4%	1,818
Total nonoperating revenues	**383,666**	**426,215**	**-10%**	**426,818**
Loss before capital contributions	**(297,427)**	**(355,331)**	**-16%**	**(334,033)**
Capital contributions	169,558	-	100%	-
Change in net assets	**(127,869)**	**(355,331)**	**-64%**	**(334,033)**
Net assets at beginning of year	**2,341,173**	**2,696,504**	**-13%**	**3,030,537**
Net assets at end of year	**$ 2,213,304**	**$ 2,341,173**	**-5%**	**$ 2,696,504**

Statements of Cash Flows
Years Ended September 30, 2010, 2009 and 2008

	2010	2009	Increase (Decrease) from 2009	2008
Cash flows from operating activities	$ (384,984)	$ (387,800)	-1%	$ (508,273)
Cash flows from noncapital financing activities	382,500	472,104	-19%	465,481
Cash flows from capital and related financing activities	(21,111)	(43,630)	-52%	(11,256)
Cash flows from investing activities	1,166	66,658	-98%	(1,752)
Net (decrease) increase in cash	**(22,429)**	**107,332**	**-121%**	**(55,800)**
Cash at beginning of year	**163,480**	**56,148**	**191%**	**111,948**
Cash at end of year	**$ 141,051**	**$ 163,480**	**-14%**	**$ 56,148**

OVERVIEW OF FINANCIAL POSITION

Total current assets decreased by 12% in fiscal year 2010 over fiscal year 2009 ($296,710 versus $338,773), due to a 14% decrease in cash on hand at September 30, 2010 ($141,051 versus $163,480). There are no Republic of Palau (ROP) receivables in fiscal year 2010. Allotments from ROP were timely received contributing to the reduction in current assets at September 30, 2010. Grants receivables decreased by 75% in fiscal year 2010 over fiscal year 2009 ($15,438 versus $61,911). Most grants are multi-year and $15,438 represents grant amounts that have been awarded but not received in fiscal year 2010. Grant receipts are initially posted as deferred revenue waiting to be expensed as projects are implemented. Due to a decreased, yet high rate of depreciation, total assets decreased by 3% in fiscal year 2010 over fiscal year 2009 ($2,597,021 versus $2,680,921).

As the Center continues to grow and operate, it incurs expenses and recognizes revenues as projects are implemented. As such, accounts payable increased by 94% ($164,635 versus $84,891) in fiscal year 2010 over fiscal year 2009 and deferred revenue decreased by 21% ($144,761 versus $182,973).

Total current assets decreased by 5% in fiscal year 2009 over fiscal year 2008 ($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 ROP receivables in fiscal year 2009. 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 fiscal year 2009 over fiscal year 2008 ($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 fiscal year 2009 over fiscal year 2008 ($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 fiscal year 2009 over fiscal year 2008 and deferred revenue increased by 60% ($182,973 versus $114,431). Unrestricted net assets decreased by 101% in fiscal year 2009 over fiscal year 2008 ($(975) versus $98,628). 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 fiscal year 2008, a 10% decrease, net of applicable accumulated depreciation.

Capital Assets

At September 30, 2010, 2009 and 2008, the Center had $2,300,311, $2,342,148 and $2,597,876, respectively, invested in capital assets, net of accumulated depreciation where applicable, including buildings, mechanical, electrical, research, office, exhibit and marine equipment, aquarium, furniture and fixtures, computers and vehicles, which represents a net decrease in fiscal year 2010 of $41,837 or 2% over fiscal year 2009 and $255,728 or 10% in fiscal year 2009 over 2008. 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, 2010, 2009 and 2008 is shown below:

Statements of Net Assets
September 30, 2010, 2009 and 2008

	2010	2009	Increase (Decrease) from 2009	2008
Current assets:				
Cash	$ 141,051	$ 163,480	-14%	$ 56,148
Time certificate of deposit	-	-	0%	65,443
Receivables:				
Republic of Palau	-	-	0%	47,104
Grantor agencies	15,438	61,911	-75%	18,951
Other	84,925	106,330	-20%	116,544
	100,363	168,241	-40%	182,599
Less allowance for doubtful accounts	(56,949)	(94,324)	-40%	(77,475)
Total receivables, net	43,414	73,917	-41%	105,124
Inventories	102,213	92,344	11%	110,277
Prepaid expense	10,032	9,032	11%	21,331
Total current assets	**296,710**	**338,773**	**-12%**	**358,323**
Property, plant and equipment, net	2,300,311	2,342,148	-2%	2,597,876
Total assets	**$ 2,597,021**	**$ 2,680,921**	**-3%**	**$ 2,956,199**
Current liabilities:				
Accounts payable	$ 164,635	$ 84,891	94%	$ 73,202
Deferred revenue	144,761	182,973	-21%	114,431
Accrued expenses	74,321	71,884	3%	72,062
Total current liabilities	**383,717**	**339,748**	**13%**	**259,695**
Net assets:				
Invested in capital assets	2,300,311	2,342,148	-2%	2,597,876
Unrestricted	(87,007)	(975)	8,824%	98,628
Total net assets	**2,213,304**	**2,341,173**	**-5%**	**2,696,504**
Total liabilities and net assets	**$ 2,597,021**	**$ 2,680,921**	**-3%**	**$ 2,956,199**

ECONOMIC OUTLOOK

Prices of goods and fuel continue to fluctuate as well as utility charges. At the Center, we are still faced with expense and cash flow issues. The Center's fiscal year 2010 budget request of $450,000 was decreased by 18% to $382,500. Total visitors to Palau were 81,934 in fiscal year 2010 and 19% (15,327) visited the Palau Aquarium. Although total visitors to Palau increased by 12% (73,365 in fiscal year 2009), visitors to the Center decreased by 6% from fiscal year 2009. Total arrivals from ROC to Palau increased by 52% (22,514 in fiscal year 2010 versus 14,814 in fiscal year 2009), which translates to a 1% increase from fiscal year 2009. The Korean market posted a 17% decrease from fiscal year 2009, while the Japan market decreased by 2% from fiscal year 2009.

With regular flights from Continental Airlines, China Airlines, Asiana Airlines, Delta Airlines and Japan Airlines charters, we may be able to see a steady flow of visitors in fiscal year 2011. Japan visitors may decrease in fiscal year 2011 due to less travel resulting from the devastating earthquake and tsunami. Also, talks of increasing the green fee may deter visitors from coming to our island paradise, but value added to their experiences may very well be the determining factor. Further, if the green fee is increased and visitors continue to arrive despite the increase, the Center may be able to receive some of that fee to supplement its operational budget.

ECONOMIC OUTLOOK, CONTINUED

A very positive outlook for the Center is its agreement with the Government of Japan, through JICA, to implement the Capacity Enhancement Project for Coral Reef Monitoring (CEPCM). This project started in July 2009 and will continue until July 2012. Japan provided slightly over $2,000,000 of technical assistance by (1) dispatching experts from Japan or other countries to the Center, (2) providing machinery and equipment to the Center, and 3) training Center staff in Japan or other countries. This project sets out to achieve two goals: (1) to develop coral reef monitoring protocols for ROP that could be used for the Micronesia region, and (2) to enhance partnerships between the Center and international initiatives, the five Micronesia Challenge jurisdictions (ROP, the Federated States of Micronesia, the Republic of the Marshall Islands, the Territory of Guam and the Commonwealth of the Northern Mariana Islands), related organizations and research institutes. These monitoring protocols will benefit the whole region in helping to achieve the goals of the Micronesia Challenge.

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, 2009 is set forth in the report on the audit of the Center's financial statements which is dated May 27, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements. If you have questions about the 2009 or 2008 reports, or need additional information, please contact the Interim Chief Executive Officer at the Palau International Coral Reef Center, P.O. Box 7086, Koror, Palau 96940, or e-mail ygolbuu@picrc.org or call 488-6950.

Statements of Net Assets
September 30, 2010 and 2009

ASSETS	2010	2009 (As Restated)
Current assets:		
Cash	$ 141,051	$ 163,480
Receivables:		
Grantor agencies	15,438	61,911
Other	84,925	106,330
	100,363	168,241
Less allowance for doubtful accounts	(56,949)	(94,324)
Total receivables, net	43,414	73,917
Inventories	102,213	92,344
Prepaid expense	10,032	9,032
Total current assets	296,710	338,773
Property, plant and equipment, net	2,300,311	2,342,148
	$ 2,597,021	$ 2,680,921

LIABILITIES AND NET ASSETS	2010	2009 (As Restated)
Current liabilities:		
Accounts payable	$ 164,635	$ 84,891
Deferred revenue	144,761	182,973
Accrued expenses	74,321	71,884
Total current liabilities	383,717	339,748
Net assets:		
Invested in capital assets	2,300,311	2,342,148
Unrestricted	(87,007)	(975)
Total net assets	2,213,304	2,341,173
	$ 2,597,021	$ 2,680,921

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010	2009 (As Restated)
Operating revenues:		
Grants	$ 327,793	$ 274,679
Facility user and admission fees	95,411	91,378
Donations	42,926	26,901
Merchandise sales	34,295	31,784
Fund raising	21,858	26,778
Boat fee	13,104	14,974
Accomodation	7,671	7,790
Research facilities	2,562	8,459
Education program fee	970	747
Other	8,502	605
Total operating revenues	555,092	484,095
Bad debts	(418)	(16,849)
	554,674	467,246
Operating expenses:		
Salaries, wages and fringe benefits	501,465	461,684
Depreciation	232,506	299,358
Utilities	153,747	133,922
Supplies and printing	126,989	127,736
Professional services	79,799	67,491
Travel	38,712	42,791
Fuel	21,393	13,571
Merchandise cost	18,974	29,038
Insurance	15,073	17,967
Communications	14,435	11,429
Anniversary	7,987	10,649
Repairs and maintenance	6,942	4,400
Sales and marketing	2,240	9,664
Other	15,505	19,092
Total operating expenses	1,235,767	1,248,792
Operating loss	(681,093)	(781,546)
Nonoperating revenues		
Appropriations	382,500	425,000
Interest income	1,166	1,215
Total nonoperating revenues	383,666	426,215
Loss before capital contributions	(297,427)	(355,331)
Capital contributions	169,558	-
Change in net assets	(127,869)	(355,331)
Net assets at beginning of year	2,341,173	2,696,504
Net assets at end of year	$ 2,213,304	$ 2,341,173

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 536,096	$ 550,123
Cash payments to suppliers for goods and services	(422,052)	(476,061)
Cash payments to employees for services	(499,028)	(461,862)
Net cash used for operating activities	(384,984)	(387,800)
Cash flows from noncapital financing activities:		
Appropriations	382,500	472,104
Net cash provided by noncapital financing activities	382,500	472,104
Cash flows from capital and related financing activities:		
Property, plant and equipment acquisitions	(21,111)	(43,630)
Net cash used for capital and related financing activities	(21,111)	(43,630)
Cash flows from investing activities:		
Proceeds from time certificate of deposit	-	65,443
Interest received	1,166	1,215
Net cash provided by investing activities	1,166	66,658
Net (decrease) increase in cash	(22,429)	107,332
Cash at beginning of year	163,480	56,148
Cash at end of year	$ 141,051	$ 163,480
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (681,093)	$ (781,546)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	232,506	299,358
Bad debts	418	16,849
(Increase) decrease in assets:		
Receivables grantor agencies	46,473	(42,960)
Receivables, other	(16,388)	10,214
Inventories	(9,869)	17,933
Prepaid expense	(1,000)	12,299
Increase (decrease) in liabilities:		
Accounts payable	79,744	11,689
Deferred revenue	(38,212)	68,542
Accrued expenses	2,437	(178)
Net cash used for operating activities	$ (384,984)	$ (387,800)
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of contributed capital assets:		
Noncash increase in property, plant and equipment	$ 169,558	$ -
Noncash increase in net assets	(169,558)	-
	$ -	$ -

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. As of September 30, 2010 and 2009, cash was $141,051 and $163,480, respectively, and the corresponding bank balances were $137,800 and $162,140, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance and were FDIC insured. The Center does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. There were no deposit levels in excess of FDIC coverage at September 30, 2010 and 2009.

In line with the Center's Strategic Plan to become self-sustaining, cash amounts of $127,766 and $104,109 have been internally restricted as of September 30, 2010 and 2009, 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.

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.

(2) Summary of Significant Accounting Policies, Continued

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 $24,711, $22,943 and $26,551 to the Fund during the fiscal years 2010, 2009 and 2008, 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, 2010 and 2009 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, 2009 actuarial valuation determined the unfunded pension benefit obligation as follows:

Active participants	$ 56,060,970
Participants in pay status	47,666,805
Participants with vested deferred benefits	1,779,610
Total pension benefit obligation	105,507,385
Net assets available for benefits, at market value	41,254,319
Unfunded benefit obligation	$ 64,253,066

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

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

Compensated Absences

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2010, the Center implemented the following pronouncements:

- GASB 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.

- GASB 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.

- GASB 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.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. 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 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Center.

Reclassification

Certain 2009 balances in the accompanying financial statements have been reclassified to conform to the 2010 presentation.

(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, 2010 and 2009 are as follows:

	2010	2009
Balance at beginning of year	$ 61,911	$ 18,951
Deductions - cash receipts from grantor agency	(301,797)	(316,600)
Additions - program outlays	293,942	291,018
(Decrease) increase in deferred revenue	(38,618)	68,542
Balance at end of year	$ 15,438	$ 61,911

(4) Inventories

Inventories as of September 30, 2010 and 2009, consist of the following:

	2010	2009
Spare parts	$ 84,371	$ 72,935
Merchandise	17,842	19,409
	$ 102,213	$ 92,344

(5) Property, Plant and Equipment

Property, plant and equipment as of September 30, 2010 and 2009, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2009	Additions	Deletions	Balance at September 30, 2010
Buildings	10 - 30 years	$ 3,649,000	$ 14,840	$ -	$ 3,663,840
Mechanical, electrical, research, office, exhibit and marine equipment	2 - 15 years	1,982,512	137,724	-	2,120,236
Aquarium	7 years	1,588,537	-	-	1,588,537
Furniture and fixtures	5 years	175,341	-	-	175,341
Computers	5 years	91,952	-	-	91,952
Vehicles	3 years	86,147	38,105	-	124,252
		7,573,489	190,669	-	7,764,158
Less accumulated depreciation		(5,231,341)	(232,506)	-	(5,463,847)
		$ 2,342,148	$ (41,837)	$ -	$ 2,300,311

	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

(6) Republic of Palau

During the years ended September 30, 2010 and 2009, the Center received appropriations for operations amounting to $382,500 and $425,000 through RPPLs 8-8 and 8-2, 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.

(8) Restatement

The financial statements as of and for the year ended September 30, 2009 have been restated to reduce deferred revenue amounts for unrecorded grant revenues of prior years. The following accounts have been restated for the year ended September 30, 2009:

	As Originally Stated	As Restated
Deferred revenue	$ 212,026	$ 182,973
Net assets at beginning of year	$ 2,667,451	$ 2,696,504