

PROTECTED AREAS NETWORK FUND  
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2012  
AND FOR THE PERIOD FROM INCEPTION  
(NOVEMBER 2, 2010) TO SEPTEMBER 30, 2011

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Protected Areas Network Fund:

We have audited the accompanying statements of net assets of the Protected Areas Network Fund (PAN Fund), a component unit of the Republic of Palau, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year ended September 30, 2012 and for the period from inception (November 2, 2010) to September 30, 2011. These financial statements are the responsibility of PAN Fund'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 PAN Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Protected Areas Network Fund, as of September 30, 2012 and 2011, and changes in its net assets and its cash flows for the year ended September 30, 2012 and for the period from inception (November 2, 2010) to September 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2013 on our consideration of PAN Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Deloitte & Touche LLC*

June 29, 2013



## Protected Areas Network Fund

PRA Bldg #202 | P.O. Box 1738, Koror, Palau 96940

Phone: (680)488-FUND (3863) | Direct: (680)488-1313

Fax: (680)488-1314 | Website: [www.palaupanfund.org](http://www.palaupanfund.org)

### Management's Discussion and Analysis Year Ended September 30, 2012 and for the Period from Inception (November 2, 2010) Through September 30, 2011

This report presents a management's discussion and analysis of the Protected Areas Network Fund's (PAN Fund) financial performance during the fiscal year ended September 30, 2012 and for the period from inception (November 2, 2010) through September 30, 2011.

#### ORGANIZATION AND PURPOSE

PAN Fund is a component unit of the Republic of Palau (ROP) and was formed on May 2, 2008, under the provisions of ROP Public Law No. 7-42 for the purpose of administering and managing all funds received for the financial sustainability of the Protected Areas Network (the PAN) in Palau and for other related purposes. PAN Fund is a registered non-profit corporation managed by a nine-member Board of Directors, including the ROP Minister of Finance and the ROP Minister of Resources and Development.

#### OVERVIEW OF FINANCIAL STATEMENTS

PAN Fund's fixed assets was \$10,664 as of September 30, 2012 as compared to \$-0- as of September 30, 2011. See note 3 for more detailed information on PAN Fund's fixed assets and changes therein.

##### *Statements of Net Assets:*

	<u>2012</u>	<u>2011</u>
Current assets	\$ 2,035,705	\$ 2,444,061
Fixed assets	<u>10,664</u>	<u>-</u>
Total assets	<u>2,046,369</u>	<u>2,444,061</u>
Current liabilities	<u>-</u>	<u>-</u>
Net assets:		
Invested in capital assets	10,664	-
Restricted	<u>2,035,705</u>	<u>2,444,061</u>
Total net assets	\$ <u>2,046,369</u>	\$ <u>2,444,601</u>

##### *Statements of Revenues, Expenses and Changes in Net Assets:*

Operating revenues	\$ -	\$ -
Operating expenses	<u>2,245,612</u>	<u>302,147</u>
Operating loss	(2,245,612)	(302,147)
Nonoperating revenues	<u>1,847,920</u>	<u>2,746,208</u>
Change in net assets	(397,692)	2,444,061
Net assets at beginning of period	<u>2,444,061</u>	<u>-</u>
Net assets at end of period	\$ <u>2,046,369</u>	\$ <u>2,444,061</u>

## OVERVIEW OF FINANCIAL STATEMENTS, CONTINUED

### *Statements of Cash Flows:*

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities	\$ (2,245,612)	\$ (302,147)
Cash flows from noncapital financing activities	2,422,280	302,147
Cash flows from capital financing activities	<u>(10,664)</u>	<u>-</u>
Net increase in cash	166,004	-
Cash at beginning of period	<u>-</u>	<u>-</u>
Cash at end of period	\$ <u>166,004</u>	\$ <u>-</u>

### *Statement of Net Assets*

1. Green fee receivables amounted to \$1,869,701 in FY 2012 compared to \$2,444,061 in FY 2011. The receivables in FY 2011 are inclusive of FY 2010 receivables. Cash from operations totaled \$166,044 and \$-0- in FY 2012 and FY 2011, respectively.
2. In FY 2012, PAN Fund invested in \$10,664 in capital assets for furniture, fixtures and equipment to establish PAN Fund's office and mobilize operations.
3. Total net assets amounted to \$2,046,369 in FY 2012 compared to \$2,444,061 in FY 2011.

### *Statement of Revenues, Expenses and Changes in Net Assets*

1. In FY 2012, operating expenses amounted to \$2,245,612, of which \$1,400,000 or 62% was attributed to an endowment fund with Micronesian Conservation Trust in line with the sustainable finance plan. The contribution to the endowment fund was to build up Palau's share to meet the 2 to 1 matching contribution with The Nature Conservancy. Additionally, \$811,762 or 36% was directed to the PAN sites/states and \$33,850 or 2% was expensed for PAN Fund's operating costs. In FY 2011, operating expenses amounted to \$302,147, of which \$200,000 was directed to PAN sites/states to implement conservation management plans, while \$102,147 went to the PAN Institutional System to provide the institutional/technical support for PAN Member States.
2. In FY 2012, nonoperating revenues of \$1,847,920 were transferred in from ROP as Green Fees. As a result, there was a decrease in net assets of \$397,692 applied to the beginning net assets of \$2,444,061 for total net assets of \$2,046,369. In FY 2011, a total of \$2,746,208 was transferred in from ROP.

## CONCLUDING SUMMARY

In FY 2012, PAN Fund launched its operations to implement its mission to effectively and equitably provide funding to the Protected Areas Network and its associated activities, through strategic actions and medium to long-term financial support that will advance effective management and conservation of Palau's natural and cultural resources. PAN Fund experienced its first audit and shall continue to adhere to controls and comply with its financial, managerial, and operational procedures and policies to remain a prudent fiduciary as a trustee for the Protected Areas Network.

## **CONTACTING PAN FUND'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of PAN Fund's finances and to demonstrate PAN Fund's accountability for the money it receives. If you have questions about the report or need additional information, please contact the General Manager at the Protected Areas Network Fund, P.O. Box 1738, Koror, Republic of Palau 96940, at (680) 488-FUND (3863) or e-mail [ziegler@palupanfund.org](mailto:ziegler@palupanfund.org) or fax (680) 488-1314.

PROTECTED AREAS NETWORK FUND

Statements of Net Assets  
September 30, 2012 and 2011

	<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:			
Cash		\$ 166,004	\$ -
Republic of Palau Green Fees receivable		<u>1,869,701</u>	<u>2,444,061</u>
Total current assets		2,035,705	2,444,061
Fixed assets, net		<u>10,664</u>	<u>-</u>
		<u>\$ 2,046,369</u>	<u>\$ 2,444,061</u>
<u>LIABILITIES AND NET ASSETS</u>			
Liabilities		<u>\$ -</u>	<u>\$ -</u>
Contingency			
Net assets:			
Invested in capital assets		10,664	-
Restricted		<u>2,035,705</u>	<u>2,444,061</u>
Total net assets		<u>2,046,369</u>	<u>2,444,061</u>
		<u>\$ 2,046,369</u>	<u>\$ 2,444,061</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Statements of Revenues, Expenses and Changes in Net Assets  
 Year Ended September 30, 2012 and  
 For the Period from Inception (November 2, 2010) to September 30, 2011

	<u>2012</u>	Period From Inception (November 2, 2010) to September 30 2011
Operating revenues	\$ -	\$ -
Operating expenses:		
Micronesia Conservation Trust contribution	1,400,000	-
PAN site/states	811,762	200,000
PAN Institutional System	-	102,147
Salaries and wages	15,761	-
Facilities and equipment	3,503	-
Repairs and maintenance	2,810	-
Civil Service Pension Plan	2,460	-
Social Security Retirement Fund	2,082	-
Withholding taxes	1,595	-
Communications	1,497	-
Supplies	1,343	-
Advertisements	1,004	-
Professional development	1,155	-
Fuel	640	-
	<u>2,245,612</u>	<u>302,147</u>
Total operating expenses	<u>2,245,612</u>	<u>302,147</u>
Operating loss	<u>(2,245,612)</u>	<u>(302,147)</u>
Nonoperating revenues:		
Transfer in from Republic of Palau Green Fees	<u>1,847,920</u>	<u>2,746,208</u>
Total nonoperating revenues	<u>1,847,920</u>	<u>2,746,208</u>
Change in net assets	(397,692)	2,444,061
Net assets at beginning of period	<u>2,444,061</u>	-
Net assets at end of period	<u>\$ 2,046,369</u>	<u>\$ 2,444,061</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Statements of Cash Flows  
 Year Ended September 30, 2012 and  
 For the Period from Inception (November 2, 2010) to September 30, 2011

	<u>2012</u>	Period From Inception (November 2, 2010) to September 30 2011
Cash flows from operating activities:		
Micronesia Conservation Trust contribution	\$ (1,400,000)	\$ -
Cash payments to PAN sites/States and institutional system	(811,762)	(302,147)
Cash payments to suppliers for goods and services	(11,767)	-
Cash payments to employees for services	<u>(22,083)</u>	<u>-</u>
Net cash used for operating activities	<u>(2,245,612)</u>	<u>(302,147)</u>
Cash flows from noncapital financing activities:		
Republic of Palau Green Fees	<u>2,422,280</u>	<u>302,147</u>
Net cash provided by noncapital financing activities	<u>2,422,280</u>	<u>302,147</u>
Cash flows from capital financing activities:		
Fixed asset acquisitions	<u>(10,664)</u>	<u>-</u>
Net cash used for capital financing activities	<u>(10,664)</u>	<u>-</u>
Net increase in cash	166,004	-
Cash at beginning of period	<u>-</u>	<u>-</u>
Cash at end of period	<u>\$ 166,004</u>	<u>\$ -</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (2,245,612)	\$ (302,147)
Net cash used for operating activities	<u>\$ (2,245,612)</u>	<u>\$ (302,147)</u>

See accompanying notes to financial statements.

## PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2012 and 2011

### (1) Organization

The Protected Areas Network Fund (PAN Fund), a component unit of the Republic of Palau (ROP), was formed on May 2, 2008, under the provisions of the Republic of Palau Public Law (RPPL) No. 7-42 for the purpose of administering and managing all funds received for the financial sustainability of the Protected Areas Network (the PAN) in Palau and for other related purposes. Portions of RPPL 7-42 were revised by RPPL 8-9 and RPPL 8-18. The Law created a registered non-profit corporation under the ROP corporate registry managed by a Board of Directors, consisting of seven voting members and the ROP Minister of Finance and the ROP Minister of Resources and Development, appointed in accordance with PAN Fund's Articles of Incorporation and approved by no less than two thirds of the Senate of the Olbiil Era Kelulau (ROP National Congress). PAN Fund's non-profit corporate charter was issued on November 2, 2010 by ROP and operations formally launched on March 24, 2012 upon receiving tourist and visitor environmental protection and arrival fee (Green Fee) monies from the ROP Ministry of Finance (MOF).

RPPL 7-42 authorized MOF to implement Green Fees to be used for the purpose of the operation of the PAN and to be deposited into an account at the National Treasury. The ROP Minister of Finance shall subsequently transfer the funds collected to PAN Fund. During the years ended September 30, 2012, 2011 and 2010 MOF collected \$1,847,920, \$1,603,260 and \$1,142,948 for this purpose. PAN Fund recorded \$1,847,920 and \$2,746,208 as transfers in from ROP Green Fees for the year ended September 30, 2012 and for the period from inception (November 2, 2010) to September 30, 2011, respectively. PAN Fund recorded ROP Green Fees receivable of \$1,869,701 and \$2,444,061 as of September 30, 2012 and 2011, respectively. The receivables and transfers with ROP constitute all of PAN Fund's related party transactions.

Funds administered, managed and invested by PAN Fund as the financial trustee corporation of the PAN shall include:

- Green Fees from ROP are to be used for general operations of the PAN. PAN Fund shall place five percent (5%) received from Green Fees and any unallocated funds remaining at the end of each fiscal year in the Micronesia Conservation Trust (MCT) Endowment, net investment revenues from which are available for PAN Fund's exclusive use at a later time, pursuant to guidelines of MCT. PAN Fund considers its fiscal year 2013 budget to be an allocation of funds and therefore has not recorded a liability to MCT at September 30, 2012;
- Donations, grants and other aid given to PAN Fund; and
- Income and other property derived from or attributed to the investment or application of property.

PAN Fund shall disburse all funding for:

- The implementation of PAN protected areas management, sustainable development and work plans for PAN sites based on performance, impact/outcome and appropriate management costs for the continuing sustainable operation of the PAN Fund;
- The undertaking of necessary research and educational activities substantially related to carrying out the provisions of RPPL No. 7-42; and

## PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2012 and 2011

### (1) Organization, Continued

- The performance of any other functions that are necessary in order to carry out the purposes of RPPL No. 7-42 including the operation of the PAN Office.

PAN Fund'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 PAN Fund conform to accounting principles generally accepted in the United States of America, as applicable to governmental 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. PAN Fund has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

#### 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.

#### Basis of Accounting

All 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 this fund are included in the statements of net assets. Proprietary fund operating statements reflect increases and decreases in net total assets and utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

#### Budget and Appropriation

In each year's national government fiscal year budget, the Olbiil Era Kelulau shall authorize and appropriate all money collected through the environmental protection arrival fee which shall be used for the sole purpose of the operation of the Protected Areas Network including authorization and appropriation of no more than ten percent (10%) of such amount to be allocated to PAN Fund for reasonable administrative costs of operation of PAN Fund. Budgetary financial statements are not considered to be a disclosure requirement by management.

## PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

#### Cash

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash in checking account. As of September 30, 2012 and 2011, cash was \$166,004 and \$-0-, respectively, and the corresponding bank balances were \$165,057 and \$-0-, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance and were FDIC insured. PAN Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Cash deposits were not in excess of FDIC coverage at September 30, 2012 and 2011.

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 PAN Fund or its agent in PAN Fund'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 PAN Fund'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 PAN Fund's name and non-collateralized deposits.

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, PAN Fund'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. PAN Fund does not have a deposit policy for custodial credit risk.

#### Fixed Assets

Fixed assets are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of \$100.

#### Retirement Plan

PAN Fund 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.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

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. PAN Fund contributed \$2,460 and \$-0- to the Fund during the fiscal year 2012 and for the period from inception (November 2, 2010) through September 30, 2011, respectively, which were equal to the required contributions for each year.

Under the provisions of RPPL 2-26, the Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law, and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. PAN Fund's payroll for the years ended September 30, 2012 and 2011 was covered by the Fund's pension plan. The Fund utilizes the actuarial cost method termed "agreement cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 7.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

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

The Fund's October 1, 2011 actuarial valuation determined the unfunded pension benefit obligation as follows:

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

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.

## PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

#### Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, has required PAN Fund 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 PAN Fund pursuant to those stipulations or that expire by the passage of time. PAN Fund considers all assets, except investments in capital assets, to be restricted in accordance with the provisions of RPPL 7-42.
- Unrestricted: net assets that are not subject to externally imposed stipulations. As PAN Fund considers all assets, except investments in capital assets to be restricted in accordance with the provisions of RPPL 7-42, PAN Fund does not have unrestricted net assets at September 30, 2012 and 2011.

#### New Accounting Standards

During the year ended September 30, 2012, PAN Fund implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PAN Fund.

## PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

#### New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PAN Fund.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PAN Fund.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of PAN Fund.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PAN Fund.

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

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

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements  
September 30, 2012 and 2011

(3) Fixed Assets

Fixed assets of PAN Fund as of September 30, 2012 and 2011, are summarized below:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2012</u>
Furnitures, fixtures and equipment		\$ -	\$ 10,664	\$ -	\$ 10,664
Less accumulated depreciation		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>\$ -</u>	<u>\$ 10,664</u>	<u>\$ -</u>	<u>\$ 10,664</u>

(4) Contributions

The Micronesia Challenge (MC) is a commitment by the Chief Executives of the Republic of Palau, the Federated States of Micronesia (FSM), the Republic of the Marshall Islands, the U.S. Territory of Guam and the U.S. Commonwealth of the Northern Mariana Islands to effectively conserve at least 30% of the near-shore marine resources and 20% of the terrestrial resources across Micronesia by 2020.

Micronesia Conservation Trust (MCT) is a non-profit trust corporation registered in the FSM whose mission is to support biodiversity conservation and related sustainable development of the people of Micronesia by providing long-term sustained funding opportunities, management and investment services. MCT holds MC assets in restricted endowment funds. During the year ended September 30, 2012 and the period from inception (November 2010) to September 30, 2011, PAN Fund contributed \$1,400,000 and \$-0- to the MC endowment funds held by MCT. In previous years the Republic of Palau had directly contributed \$500,000 to the MC endowment funds. MCT is responsible for disbursing all net investment revenues of the Palau portion of the MC endowment fund to PAN Fund in line with established guidelines. At September 30, 2012, the Palau portion of MC endowment funds held by MCT was \$6,270,470, which includes the above contributions and \$2,000,000 and \$1,684,848 from The Nature Conservancy and Global Environmental Facility, respectively, who have made contributions on Palau's behalf.

(5) Contingency

In accordance with PAN and PAN Fund legislation, PAN Fund is the only entity authorized to administer or disburse Green Fee funds. Before inception of PAN Fund on November 2, 2010 the PAN office was administered by the ROP Ministry of Natural Resources, Environment and Tourism. During the year ended September 30, 2011, ROP allocated \$57,147 against Green Fee collections to offset operational expenses of the PAN office. The \$57,147 represented 5% of Green Fees collected during the year ended September 30, 2010 and is included within PAN Institutional System expense of \$102,147 for the period from inception (November 2, 2010) to September 30, 2011 in the accompanying financial statements. An audit performed by the ROP Office of the Public Auditor determined that a portion of the allocation was contrary to PAN and PAN Fund legislation. PAN Fund has not recorded a receivable due to the uncertainty of the amount and collection.