

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT

Board of Directors
Protected Areas Network Fund:

Report on the Financial Statements

We have audited the accompanying financial statements of the Protected Areas Network Fund (PAN Fund), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2018 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* in considering PAN Fund's internal control over financial reporting and compliance.

Deloitte & Touche LLC

February 16, 2018



Protected Areas Network Fund

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Management's Discussion and Analysis Year Ended September 30, 2017

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, 2017, with selected comparative information for the fiscal years ended September 30, 2016 and 2015.

ORGANIZATION AND PURPOSE

Republic of Palau Public Law (RPPL) 6-39 (the PAN Act) established a national system of support from the National Government of Palau to the States for its conservation programs to preserve, conserve and manage its natural resources and ecological biodiversity. RPPL 7-42 was then enacted creating a national financial mechanism for the PAN and PAN Fund. PAN Fund is a registered non-profit corporation governed by a nine-member Board of Directors appointed by the initial four-member incorporators; namely The Nature Conservancy (TNC), Conservation International (CI), the Ministry of Natural Resources, Environment and Tourism (MNRET) and the Ministry of Finance (MOF) with advice and consent of the Senate of the Olbiil Era Kelulau (OEK-Palau National Congress). The Board of Directors' major responsibilities include governance, fiduciary and grant-making.

The purpose of PAN Fund is to serve as a financial trustee corporation for the "green fee" and for all monies received for the PAN, to support and finance PAN projects and programs thus administering, managing, fundraising, investing, monitoring and disbursing PAN monies for the financial sustainability of the PAN in Palau for conservation of ecological biodiversity and sustainable management and use of its natural resources.

The mission of PAN Fund is to "efficiently 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." The types of funds administered, managed and invested by PAN Fund as the financial trustee corporation to the PAN include the environmental protection fee, donations, grants and income and other property derived from or attributable to the investment. The "green fee" or environmental impact fee allocation and distribution to the PAN Member States are prioritized based on annual work plans as per management plans to effectively implement each respective conservation program. The "green fee" is disbursed quarterly and is subject to verification of activities and program implementation.

OVERVIEW OF FINANCIAL STATEMENTS

Statements of Net Position:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 3,880,195	\$ 3,032,023	\$ 3,069,329
Capital assets	<u>9,081</u>	<u>12,590</u>	<u>16,739</u>
Total assets	<u>3,889,276</u>	<u>3,044,613</u>	<u>3,086,068</u>
Current liabilities	<u>369,748</u>	<u>104,425</u>	<u>319,677</u>
Net position:			
Net investment in capital assets	9,081	12,590	16,739
Restricted	<u>3,510,447</u>	<u>2,927,598</u>	<u>2,749,652</u>
Total net position	\$ <u>3,519,528</u>	\$ <u>2,940,188</u>	\$ <u>2,766,391</u>

OVERVIEW OF FINANCIAL STATEMENTS, CONTINUED

Statements of Revenues, Expenses and Changes in Net Position:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ -	\$ -	\$ -
Operating expenses	<u>1,824,231</u>	<u>1,837,479</u>	<u>1,821,436</u>
Operating loss	(1,824,231)	(1,837,479)	(1,821,436)
Nonoperating revenues	<u>2,403,571</u>	<u>2,011,276</u>	<u>2,053,127</u>
Change in net position	579,340	173,797	231,691
Net position at beginning of year	<u>2,940,188</u>	<u>2,766,391</u>	<u>2,534,700</u>
Net position at end of year	\$ <u>3,519,528</u>	\$ <u>2,940,188</u>	\$ <u>2,766,391</u>

Statements of Cash Flows:

Cash flows from operating activities	\$ (1,703,024)	\$ (2,047,906)	\$ (1,677,933)
Cash flows from investing activities	435,362	-	-
Cash flows from noncapital financing activities	1,980,912	2,011,276	2,013,651
Cash flows from capital financing activities	<u>-</u>	<u>-</u>	<u>(3,059)</u>
Net increase (decrease) in cash	713,250	(36,630)	332,659
Cash at beginning of year	<u>3,028,269</u>	<u>3,064,899</u>	<u>2,732,240</u>
Cash at end of year	\$ <u>3,741,519</u>	\$ <u>3,028,269</u>	\$ <u>3,064,899</u>

FINANCIAL HIGHLIGHTS

PAN Fund's capital assets decreased by 28% from \$12,590 in fiscal year 2016 to \$9,081 in fiscal year 2017 and by 25% from \$16,739 in fiscal year 2015 to \$12,590 in fiscal year 2016. See note 3 to the financial statements for more detailed information on PAN Fund's capital assets and changes therein.

PAN Fund's total net position increased by 20% from \$2,940,188 in fiscal year 2016 to \$3,519,528 in fiscal year 2017 and by 6% from \$2,766,391 in fiscal year 2015 to \$2,940,188 in fiscal year 2016. The increase in net position for fiscal year 2017 was largely due to recurring green fee collections and drawdown of investment earnings from the Micronesia Conservation Trust Endowment Fund.

Total liabilities increased by 254% from \$104,425 in fiscal year 2016 to \$369,748 in fiscal year 2017 and decreased by 67% from \$319,677 in fiscal year 2015 to \$104,425 in fiscal year 2016. The increase in liabilities in fiscal year 2017 is attributed to recording of unearned grant revenues and pending disbursements to PAN States/Sites and PAN Office.

Total operating expenses decreased by 1% from \$1,837,479 in fiscal year 2016 to \$1,824,231 in fiscal year 2017 and increased by 1% from \$1,821,436 in fiscal year 2015 to \$1,837,479 in fiscal year 2016. The reduction in operating expenses is realized in special projects, salaries and wages and communications.

Net cash at the end of the year increased by 24% from \$3,028,269 in fiscal year 2016 to \$3,741,519 in fiscal year 2017 and decreased by 1% from \$3,064,899 in fiscal year 2015 to \$3,028,269 in fiscal year 2016.

ECONOMIC OUTLOOK

Based on trending data provided by the Palau Visitors Authority, the number of visitors decreased by about 11% in 2017 (122,566 compared to 138,408 in 2016) and decreased by 16% in 2016 (138,408 compared to 164,931 in 2015). Evidently, the number of visitors fluctuate each year and thus, have a direct impact on the amount of green fee collections that PAN Fund is eligible to receive. Moreover, the total amount of green fees that PAN Fund is eligible to receive from the National Government is currently capped at \$2 million. These factors affect the overall financing of the Protected Areas Network and limits the ability of PAN Fund to finance projects and investments at a level that is deemed sufficient.

PAN Fund is mindful of these factors and its implications on the green fee as the main source of revenue for the PAN. PAN Fund continues to implement necessary steps to mitigate risks associated with these factors by adopting a comprehensive sustainable financing plan with an allocation strategy utilizing current year collections to fund the succeeding year's operational budget. The allocation strategy also maintains allocations to Reserve Funds (Emergency and Legal Reserve) and Endowment Funds to mitigate risks and buffer economic downturns and environmental impacts attributed to climate change. In fiscal year 2017, PAN Fund further diversified its investment strategy by re-investing Reserve Funds in a high interest-earning investment vehicle. PAN Fund is also working very closely with the PAN Office and the PAN States/Sites in exploring opportunities to establish site-based sustainable financing mechanisms to complement the overall PAN sustainable financing plan.

CONCLUDING SUMMARY

The Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in PAN Fund's report on the audit of financial statements, which is dated January 23, 2017. That Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

CONTACTING PAN FUND'S FINANCIAL MANAGEMENT

This 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 this report, or need additional information, please send inquiries via the Protected Areas Network Fund, P.O. Box 6094, Koror, Republic of Palau 96940, or contact the following: Phone: (680) 488-FUND (3863) | Fax: (680) 488-1314 | Email: info@palaupanfund.org.

PROTECTED AREAS NETWORK FUND

Statements of Net Position
September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 3,741,519	\$ 3,028,269
Due from Republic of Palau	135,058	-
Prepaid expenses	<u>3,618</u>	<u>3,754</u>
Total current assets	3,880,195	3,032,023
Capital assets, net	<u>9,081</u>	<u>12,590</u>
	<u>\$ 3,889,276</u>	<u>\$ 3,044,613</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Accounts payable	\$ 115,328	\$ -
Accrued expenses	8,909	4,425
Due to Micronesia Conservation Trust	97,750	100,000
Unearned revenue	<u>147,761</u>	<u>-</u>
Total liabilities	<u>369,748</u>	<u>104,425</u>
Commitment		
Net position:		
Net investment in capital assets	9,081	12,590
Restricted	<u>3,510,447</u>	<u>2,927,598</u>
Total net position	<u>3,519,528</u>	<u>2,940,188</u>
	<u>\$ 3,889,276</u>	<u>\$ 3,044,613</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ -	\$ -
Operating expenses:		
PAN site/states	1,182,068	1,155,407
PAN Institutional System	200,000	196,054
Special projects	130,153	160,615
Micronesia Conservation Trust contribution	97,750	100,000
Salaries and wages	96,615	127,304
Professional development	26,838	22,967
Rent	17,800	14,400
Outreach/awareness meetings	11,355	2,901
Employee benefits	10,954	8,728
Audit	9,000	7,500
Communications	8,391	10,996
Utilities	3,639	4,434
Depreciation	3,509	4,149
Advertisements	3,302	3,026
Professional fees	2,676	650
Repairs and maintenance	1,018	1,904
Grants	239	-
Other	18,924	16,444
Total operating expenses	<u>1,824,231</u>	<u>1,837,479</u>
Operating loss	<u>(1,824,231)</u>	<u>(1,837,479)</u>
Nonoperating revenues:		
Transfer in from Republic of Palau	1,964,360	2,007,500
Investment earnings	435,362	-
Interest income	3,610	3,776
Grant revenue	239	-
Total nonoperating revenues	<u>2,403,571</u>	<u>2,011,276</u>
Change in net position	579,340	173,797
Net position at beginning of year	<u>2,940,188</u>	<u>2,766,391</u>
Net position at end of year	<u>\$ 3,519,528</u>	<u>\$ 2,940,188</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Micronesia Conservation Trust contribution	\$ (100,000)	\$ (98,177)
Cash payments to PAN sites/states and institutional system	(1,267,004)	(1,559,030)
Cash payments to suppliers for goods and services	(232,671)	(258,781)
Cash payments to employees for services	<u>(103,349)</u>	<u>(131,918)</u>
Net cash used for operating activities	<u>(1,703,024)</u>	<u>(2,047,906)</u>
Cash flows from investing activities:		
Investment earnings	<u>435,362</u>	<u>-</u>
Net cash provided by investing activities	<u>435,362</u>	<u>-</u>
Cash flows from noncapital financing activities:		
Transfer in from Republic of Palau	1,829,302	2,007,500
Cash received from grants	148,000	-
Interest income	<u>3,610</u>	<u>3,776</u>
Net cash provided by noncapital financing activities	<u>1,980,912</u>	<u>2,011,276</u>
Net increase (decrease) in cash	713,250	(36,630)
Cash at beginning of year	<u>3,028,269</u>	<u>3,064,899</u>
Cash at end of year	<u>\$ 3,741,519</u>	<u>\$ 3,028,269</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,824,231)	\$ (1,837,479)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	3,509	4,149
Decrease in assets:		
Prepaid expenses	136	676
Increase (decrease) in liabilities:		
Accounts payable	115,328	(215,139)
Accrued expenses	4,484	(1,936)
Due to Micronesia Conservation Trust	<u>(2,250)</u>	<u>1,823</u>
Net cash used for operating activities	<u>\$ (1,703,024)</u>	<u>\$ (2,047,906)</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(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 the PAN Fund. RPPL 9-15, passed into law on August 29, 2013 and effective for fiscal year 2014, reduced amounts transferred to the PAN Fund to 50% of Green Fees collected or \$2,000,000, whichever is less. During the years ended September 30, 2017 and 2016, MOF remitted \$1,955,360 and \$2,000,000, respectively, for this purpose, which PAN Fund recorded as transfers in from ROP. PAN Fund recorded \$9,000 and \$7,500 as transfers in from ROP for audit expense reimbursement for the years ended September 30, 2017 and 2016, respectively. The receivables and transfers with ROP constitute all of PAN Fund's related party transactions, except for grants described in note 4.

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

- Green Fees from ROP which are used for general operations of the PAN. PAN Fund allocates five percent (5%) of 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 recorded MCT contributions of \$97,750 and \$100,000 for the years ended September 30, 2017 and 2016, respectively. PAN Fund considers its ensuing year budget to be an allocation of funds and therefore has not recorded a liability to MCT for any unallocated funds at September 30, 2017 and 2016;
- 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.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(1) Organization, Continued

PAN Fund disburses all funding for:

- The implementation of PAN 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. During the years ended September 30, 2017 and 2016, PAN Fund provided funding to PAN sites/states for mobilization and implementation of PAN work plan of \$1,182,068 and \$1,155,407, respectively, and is recorded as PAN sites/states expense in the accompanying statements of revenue, expenses and changes in net position. Additionally, PAN Fund provided technical assistance for PAN sites/states special projects of \$130,153 and \$160,615 for the years ended September 30, 2017 and 2016, respectively.
- The undertaking of necessary research and educational activities substantially related to carrying out the provisions of RPPL No. 7-42;
- The performance of any other functions that is necessary in order to carry out the purposes of RPPL No. 7-42 including the operation of the PAN Office. The PAN Office operates under the ROP Ministry of Natural Resources, Environment and Tourism. During the years ended September 30, 2017 and 2016, PAN Fund provided funding for activities specified in an annual work plan of PAN Office in the amounts of \$200,000 and \$196,054, respectively; and
- Emergency funding to help PAN sites address exceptional needs arising from natural disasters or accidents.

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. PAN Fund utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

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 position. 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 must authorize and appropriate all money collected through the environmental protection arrival fee which must 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.

Cash

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash in bank. As of September 30, 2017 and 2016, cash was \$3,741,519 and \$3,028,269, respectively, and the corresponding bank balances were \$3,743,827 and \$3,156,722, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2017 and 2016, bank deposits of \$250,282 and \$500,000, respectively, were FDIC insured. Collateralization of deposits is not required; therefore, uninsured deposits are exposed 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.

Capital Assets

Capital 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 \$1,000.

Retirement Plan

On August 8, 2013, PAN Fund withdrew from the Palau Civil Service Pension Trust Fund (the Fund) as the Fund considers PAN Fund to be a non-profit, non-governmental organization, and to be exempt from participation in the Fund.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Net Position

PAN Fund's net position is classified as follows:

- Net investment in capital assets: capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted: net position 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 position that is 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 position at September 30, 2017 and 2016.

New Accounting Standards

During the year ended September 30, 2017, PAN Fund implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

(3) Capital Assets

Capital assets of PAN Fund as of September 30, 2017 and 2016, are summarized below:

	Estimated Useful Lives	Balance at October 1, 2016	Additions	Deletions	Balance at September 30, 2017
Furniture, fixtures and equipment	3 years	\$ 20,694	\$ -	\$ -	\$ 20,694
Vehicle	3 years	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>7,000</u>
		27,694	-	-	27,694
Less accumulated depreciation		<u>(15,104)</u>	<u>(3,509)</u>	<u>-</u>	<u>(18,613)</u>
		\$ <u>12,590</u>	\$ <u>(3,509)</u>	\$ <u>-</u>	\$ <u>9,081</u>
	Estimated Useful Lives	Balance at October 1, 2015	Additions	Deletions	Balance at September 30, 2016
Furniture, fixtures and equipment	3 years	\$ 20,694	\$ -	\$ -	\$ 20,694
Vehicle	3 years	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>7,000</u>
		27,694	-	-	27,694
Less accumulated depreciation		<u>(10,955)</u>	<u>(4,149)</u>	<u>-</u>	<u>(15,104)</u>
		\$ <u>16,739</u>	\$ <u>(4,149)</u>	\$ <u>-</u>	\$ <u>12,590</u>

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(4) Unearned Revenue

On December 27, 2016, Oceans 5, a sponsored project of Rockefeller Philanthropy Advisors, Inc., approved a \$216,000 grant to PAN Fund to support implementation of the Palau National Marine Sanctuary, created by RPPL No. 9-49. The grant period is for one year which will expire on December 31, 2017. On April 4, 2017, PAN Fund received \$108,000 from Oceans 5 representing 50% of the total grant, in accordance with the grant agreement. On May 11, 2017, a memorandum of understanding between PAN Fund and ROP, represented by the Palau National Marine Sanctuary Office (PNMS), was signed to provide a framework for ongoing cooperation between PAN Fund and PNMS and to establish parameters of assistance to be provided by PAN Fund to PNMS in receiving, administering, accounting for and disbursing contributions to PNMS from foreign governmental, private and non-profit sources. As of September 30, 2017, PAN Fund has not disbursed the grant received from Oceans 5 to PNMS. Accordingly, the amount is recorded as unearned revenue in the accompanying financial statements.

On January 31, 2017, a memorandum of agreement between PAN Fund and the ROP Ministry of Natural Resources, Environment and Tourism (MNRET) was signed to implement the Global Environment Facility Ridge-to-Reef System of Transparent Allocation of Resources (GEF R2R STAR) project. The purpose of GEF R2R STAR is to improve the Protected Areas Network, effectively implement Palau's Sustainable Land Management policy and ensure integrated coordination, mainstreaming and project management. PAN Fund must implement activities outlined in the four-year action plan and MNRET must fund the activities at quarterly disbursements. On June 23, 2017, PAN Fund received \$40,000 or the second quarter budget of the work plan from MNRET. During the year ended September 30, 2017, PAN Fund recorded \$239 expenses related to GEF R2R STAR project. Accordingly, the remaining amount of \$39,761 is recorded as unearned revenue in the accompanying financial statements.

(5) 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 years ended September 30, 2017, 2016, 2015, 2014, 2013 and 2012, PAN Fund contributed \$97,750, \$100,000, \$98,177, \$96,750, \$84,596 and \$1,400,000, respectively, to the MC endowment funds held by MCT. In previous years, ROP, The Nature Conservancy, Global Environmental Facility and Conservation International made contributions to MCT of \$400,000, \$2,000,000, \$1,684,848 and \$1,000,000, respectively, on Palau's behalf. During the year ended September 30, 2017, PAN Fund withdrew investment income of \$435,362 from MCT. The amount represents 5% of PAN Fund's average MC endowment fund balance for the years 2016, 2015 and 2014. At September 30, 2017 and 2016, the Palau portion of MC endowment funds held by MCT was \$9,715,265 and \$8,959,917, respectively.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2017 and 2016

(6) Commitment

PAN Fund leases office space in Koror, Palau. Total future minimum lease payment under this lease for subsequent years ending September 30 are as follows:

Year ending September 30,

2018	\$ 24,000
2019	<u>14,000</u>
	\$ <u>38,000</u>

(7) Subsequent Events

During the year ended September 30, 2017, the Board of Directors approved to invest amounts from PAN Fund's Emergency Fund, Legal Reserve Fund and investment earnings drawn from MCT, aggregating \$1,000,000. On October 10, 2017, PAN Fund transferred an initial investment of \$1,000,000 to the investment manager.

On October 25, 2017, PAN Fund disbursed the \$108,000 grant received from Oceans 5 to PNMS. On December 8 2017, PAN Fund requested for a no-cost extension of the grant from Oceans 5. On January 3, 2018, Oceans 5 granted a no-cost extension until March 31, 2018.