

Annual Report

December 31

2012

**Protected Areas Network Fund – FY 2012 Annual Report on
Incorporation, Composition, Funding Activities with Financial and
Progress Report within the scope of legislative mandate RPPL 7-42**

Preparer:
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Overview – Protected Areas Network Fund



During the mid-to-late 90s, Palau experienced a dramatic environmental effect of coral bleaching from the El Niño phenomenon. As a wake-up call to the coral bleaching in Palau, the local community and stakeholders, ranging from Traditional leaders, environmentalist, community members, government leaders, to name a few, mobilized to create a solution and mitigating efforts of possible similar future disaster. Regional efforts were mobilized and Micronesian Challenge was formed. Micronesian Challenge is a renowned conservation commitment to effectively conserve 20% of terrestrial resources and at least 30% near-shore marine by the year 2020. In support of Palau’s commitment to the Micronesian Challenge, RPPL 6-39 was issued in 2003 to establish the Protected Areas Network Act (PAN Act) which created the Protected Areas Network (PAN); an initiative that supports the conservation and preservation of Palau’s natural resources and biodiversity.



With the PAN Act in place, feasibility studies were conducted to assess and identify sources of fund to support such an initiative. In 2008, RPPL 7-42 was issued identifying “green fee” or departure fee as a source of fund for PAN. It also called for the establishment of the Protected Areas Network Fund (PANF), a non-profit trust corporation to administer, disburse, invest the funds, as well as seek funding for the sole purpose of supporting the PAN in preserving and conserving Palau’s precious and invaluable

biodiversity. As such, PANF also serves as the implementing arm for Palau’s sustainable finance mechanism in sourcing and funding Palau’s commitment to the Micronesian Challenge. It should be noted that although the initial mandate for “green fee” was issued in 2008, after various amendments, it finally settled at \$15.00/visitor and implemented in 2010.

Incorporation & Operation

The Protected Areas Network Fund (PANF) was incorporated on November 2, 2010, where as the fully operating governing board was formed by September 25, 2011. [Refer to Attachment I: “PANF Governing Board of Directors” for the composition & tenure]. Following the establishment of the governing board, the administrative officer was hired on March 5, 2012 and

the general manager followed on June 11, 2012. The PANF office was formally organized and opened it's door to the general public the following month in July 2012.

❖ Summary Timeline: Legislative Mandate to Operations
• 2003 - Legislative Mandate for PAN Act
• 2008 - Legislative Mandate for PAN Fund
• 2010 - Legislative Mandate for Green Fee
• 2010 - PAN Fund Incorporation
• 2011 - PAN Fund Governing Board
• 2102 - PAN Fund Office

PANF Mission Statement: 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.

Objectives and Deliverables

Operations and target objectives for the remaining 4th Quarter of FY 2012 were focused on the following:

- Organize and Mobilize PANF Office
- Research and Assess Available Funding Programs
 - Green Fees
 - Endowment Funds
- Review and Analyze Management Plans for PAN Member States
- Create a program budget and disburse funds to existing PAN Member States
- Identify PAN linkages and establish partnerships/relationship with PAN members & working groups, and stakeholders

Within the remaining 3 months of the operating cycle in FY 2012, the objectives were substantially complete and ongoing work are in motion for FY 2013 to further improve operations and strengthen PAN funding mechanisms and the relationships with PAN and the general network of stakeholders and partners in support of PAN.

Objective 1: PANF Office – Being a new organization, the first order of business was to review and verify valid legal documents supportive of the incorporation and to establish a legitimate operating office. With the office equipped, staffed, and telecommunications established, policies and procedures were verified and implemented. Call for proposals issued for legal counsel and

audit services. Furthermore, in line with PANF’s fiduciary responsibilities, prudent accounting and reporting guidelines and procedures were established in support of its due diligence.

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Objective 1- Work in Progress:

- PANF logo – draft completed; final product being worked on.
- Nomination for the 9th Vacant Seat Board Member from the private sector.
- Website – Domain completed; website – under construction pending data collection and verification including reports, photos, and other relevant data for PAN member States and PAN. Concept: Includes PANF annual reports, PAN member States projects, reports & activities, showcasing milestones, people, biodiversity, community, and other relevant activities funded by “green fee” and the endowment fund. It would also include a “donate” link for add’l means of fundraising for PAN.

Objective 2: Sustainable Funding Mechanism: Green Fees & Endowment Funds – To PANF and PAN program’s benefit, the green fee revenue collection began before the PANF was formally mobilized for operation. As a result, PANF operates on a “cash basis”, not on “projected revenues”. All previous year’s generated green fee funds the current operating budget. Example: FY 2011 revenue was used to fund FY 2012 and all funds collected in FY 2012 will be used to fund FY 2013 budget. The following Summary of Accounts details Green fee revenues and endowment balance being managed by the Micronesian Conservation Trust (MCT).

Summary of Accounts - Environment Fund	
Green Fee	FY 2012 - \$1.8Mn FY 2011 - \$1.6Mn FY 2010 - \$1.1Mn
Endowment	\$6.3Mn (as of 9/30/12) Goal: \$10Mn by 2016 2:1 Matching program with TNC & CI

Green Fees

According to the Green Fee Revenue, PANF would have worked with \$2.7Mn when it started its operation. However, during the discovery phase, PANF identified that the balance of green fee remaining from FY 2010 and FY 2011 was \$787K. By law, PANF operates at 10% of the “green fee”, which translates to a \$270K; the combined revenues from FY 2010 and FY 2011. However, due to limited funds, PANF administrative budget was set at 3.96% (approx. \$107K). The bulk of the fund in the amount of \$680K was budgeted for the 9 existing PAN Member States where the priority is the conservation efforts and site management.

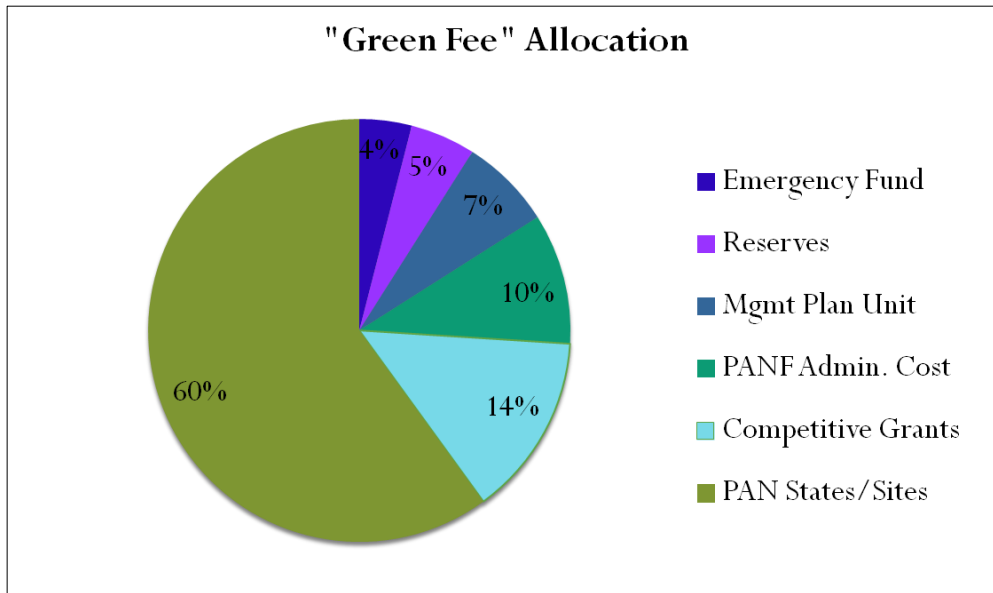
By a request from the Senate – 8th OEK, Palau’s Office of the Public Auditor (OPA) conducted a PAN – Green Fee performance audit covering the periods of October 1, 2010 thru March 31, 2012. Audit findings include disbursement of funds to the established 9 PAN Member States and other government line agencies [Refer to Attachment II: PAN Green Fee Audit]. All transactions are dated prior to the establishment of PANF Board of Directors and PANF operations. Therefore, PANF operations conducted an assessment which resulted in the following findings with disbursement of funds under RPPL – Appropriations [FY 2010 & 2011]:

RPPL - APPROPRIATIONS [FY 2010 & 2011]			\$	1,957,967.66
RPPL 8-18 - Disb. from FY 2010 Revenue			\$	282,147.41
Sect. 18(C)(1)	PAN Office (5%*\$1,142,948.10)		\$	57,147.41
Sect. 19(e)(A) (1-4)	Ngerchelong State Gov't		\$	50,000.00
	Ngiwal State Gov't		\$	50,000.00
	Melekeok State Gov't		\$	50,000.00
	Hatohobei State Gov't		\$	50,000.00
Sect. 19(e)(B)	Belau National Museum		\$	25,000.00
RPPL 8-29 - Disb. From 2010 Revenue			\$	20,000.00
Sect. 13(C)	Bureau of Rev., Customs, & Tax		\$	20,000.00
RPPL 8-31 - Disb. from FY 2011 Revenue			\$	1,655,820.25
Sect. 28 (g)(1-9)	Ngerchelong State		\$	17,580.00
	Ngiwal State		\$	27,500.00
	Melekeok State		\$	33,580.00
	Hatohobei State		\$	43,951.25
	Aimeliik State		\$	27,169.50
	Kayangel State		\$	21,000.00
	Ngaraard State		\$	23,517.00
	Ngchesar State		\$	28,548.75
	Ngardmau State		\$	32,973.75
	SubTotal		\$	255,820.25
Sect. 28 (h)	MCT		\$	1,400,000.00

PANF concurs with majority of OPA’s findings and recommendations; thus it is working in implementing some of OPA’s recommendations to remedy the findings.

Green Fee Allocations

FY 2012 Green Fee Revenues has been requested from MOF. Upon receipt of the funds, PANF shall allocate the funds in accordance to support the PAN and the Sustainable Finance Plan. Percentage and Allocation of funds are reflected in the pie chart, with planned budget for PAN Member States, PAN Office, PAN Technical Committee, Competitive Grants to support research and monitoring activities, and other programs that are aligned with supporting PAN.



Endowment Fund

Following a 2008 MoU between ROP represented by Office of Environmental Response and Coordination (OERC) and MCT, the endowment fund is managed by MCT. The partnership was established prior to the establishment of PANF. Also, the benefit of MCT managing the endowment funds is with MCT's ability to pool all regional funds from other committed members of the Micronesian Challenge, such as the Federated States of Micronesia, Guam, Republic of the Marshall Islands, and Saipan. MCT has established an Investment Policy Statement and Morgan Stanley Smith Barney LLC is the contracted wealth management and advisor on the investments.

Palau's contribution from 2008 to 2012 is \$3.6Mn. Leveraging interest earned and Palau's contribution under the 2:1 matching fund program with The Nature Conservancy (TNC), the total principle balance is \$5.6Mn. In Q3 of 2012, there was a dip in the market and the total endowment balance dropped to \$5.9Mn. However, projections of global economic rebound have been beneficial and endowment funds had a 5% growth in Q4 2012, regaining value to \$6.3Mn as of September 30, 2012. For details on the investment funds, please refer to Attachment III: MCT Investment Report093012 and ROP Invested Reconciliation.

The sustainable finance plan supports reinvesting interest earned to grow the funds to \$10Mn with a stable target returns at \$500K by year of 2016. The financial plan is deemed feasible as Conservation International has also pledge \$1Mn support under the 2:1 matching program. Should additional matching funds from undisbursed green fees, investment returns, and acceptable

Endowment Fund/Investment Activities					
Investment Returns as of 9/30/12					
Endowment Balance	\$ 6,270,469.73				
Total Contributions	\$ 5,584,848.00				
Investment Returns:	\$ 685,621.73				
Sources of Funds and Donor Contribution(s)					
Total Contributions:	\$ 5,584,848.00				
Contributions	2008	2009	2010	2011	2012
ROP - Taiwan	\$ 500,000.00				
TNC	\$ 1,000,000.00				
ROP-GEF				\$ 1,684,848.00	
ROP-Green Fee				\$ 1,400,000.00	
TNC					\$ 1,000,000.00
Sub-Total	\$ 1,500,000.00			\$ 3,084,848.00	\$ 1,000,000.00

country bi-lateral or multi-lateral financial support for climate change programs are availed for the matching program in support of \$2Mn and matched by \$1Mn from CI within the next couple of years, then the target goal of \$10Mn is projected to be within reach prior to the target year of 2016. Such aggressive projection will only be verified in due time. Currently, staying on track with the sustainable finance plan, the goal is to grow the endowment fund to \$10Mn with average \$500K interest returns by 2016. At such time, the investment returns may be drawn by PANF to support CAPEX as requested by PAN State Members for effective conservation management of both marine and terrestrial areas and the PAN Systemwide Programs – the institutional network and biodiversity conservation network. However, the final decision and allocation of funds will be determined at such time the funds reach the target principle amount and investment returns.

Objective 2 - Work in Progress:

- Collection of \$1.8Mn FY 2012 Green Fee from Ministry of Finance (MOF) for FY 2013 PAN budget, objectives, and activities.
- Implement a Financial Audit for PAN Green Fee and PANF covering inception in 2010 to 2012 – RFP issued; award letter to be issued subject to PANF receiving FY 2013 Green Fee revenue from Ministry of Finance.
- Optimize opportunity with Sterling Mazars technical support and funding from by Lucile & Packard Foundation for capacity building to standardize procedures on financial reporting, budget and productivity analysis and tracking.
- Establish clearly defined roles and responsibilities for recording keeping, reporting timelines, and standardized timely transactions with all transfer of funds.
 - Creation of a Memorandum of Understanding /Agreement (MoU or MoA) between PANF and Ministry of Finance (MOF).
 - Continue the due diligence review of the endowment fund with MCT in verifying transaction details and all associated and relevant variable with asset allocations.
 - Revisit, evaluate, and strengthen 2008 MoU between Palau and MCT

- Finalize Palau’s Country Strategy for the Sustainable Finance Plan with MCT.
- Source funds from MCT and other donor community to support PAN and PANF.
- Establish and strengthen PANF’s relationship with OERC to seek addition bilateral or multilateral donor, such as a climate change support funds from the European Union, Japan (JICA), UNDP and other similar support to match CI’s \$1Mn pledge.

Objective 3: PAN Member States & Conservation Management Plans

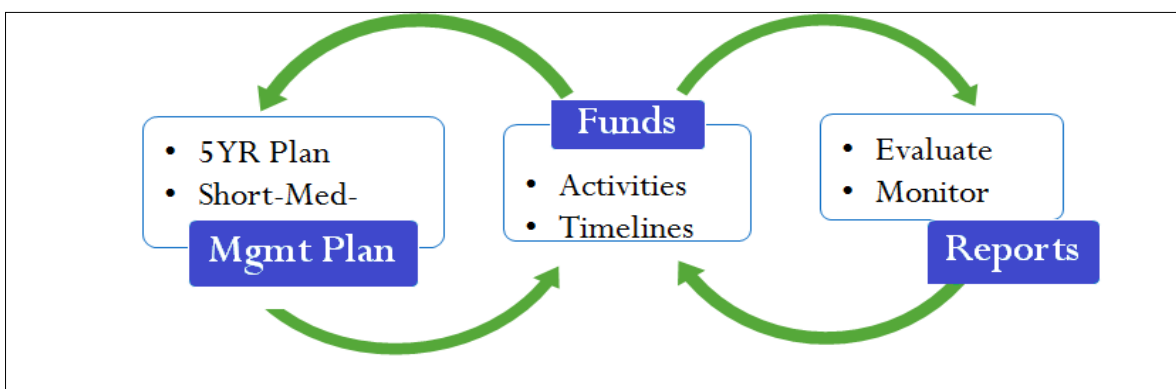


Budget for PAN Member States are allocated annually and conservation management plans are funded on a Year to Year basis. Currently there are 9 PAN State Members with completed management plans. One of the objectives for FY 2013 is to include additional 4 Member State: Koror State, Airai State, Peleliu State, and Sonsorol State.

One of the PANF’s immediate goals/objective in FY 2012 was to disburse funds to support the existing conservation programs under PAN. As discussed under Objective 2 – \$680K from remaining green fee revenues was budgeted for the 9 PAN State Members (refer to Budget Work-plan below for list of the PAN Member States and their respective budgets). On July 12, 2012, \$489K of green fee revenue was disbursed, which covered up to Q3 of each of the PAN member State’s budget. However, \$256K of Q4 disbursement was agreed to be disbursed subject to the PAN member State submitting progress and activity reports for all the funds disbursed to for their respective management plans. By year end and the closing of Q4 FY 2012, Hotohobei State completed all reporting requirements and received their Q4-YR 1 disbursement of \$44K. Ngchesar State followed with their report submitted Q1-YR 2-2013, which was followed by Ngarchelong State.

#	STATES Management Plan	FY 2012: Budget Work Plan											
		Q1	%	RPT	Q2	%	RPT	Q3	%	RPT	Q4	%	
1	Ngerchelong State	\$ 17,580.00	25%	NO	\$ 17,580.00	25%		\$ 17,580.00	25%		\$ 17,580.00	25%	
2	Ngiwal State	\$ 27,500.00	25%	YES	\$ 27,500.00	25%		\$ 27,500.00	25%		\$ 27,500.00	25%	
3	Melekeok State	\$ 33,580.50	25%	YES	\$ 33,580.50	25%		\$ 33,580.50	25%		\$ 33,580.50	25%	
4	Hatohobei State	\$ 43,951.25	25%	YES	\$ 43,951.25	25%		\$ 43,951.25	25%		\$ 43,951.25	25%	
5	Aimeliik State	\$ 27,169.50	25%	YES	\$ 27,169.50	25%		\$ 27,169.50	25%		\$ 27,169.50	25%	
6	Kayangel State	\$ 21,000.00	25%	NO	\$ 21,000.00	25%		\$ 21,000.00	25%		\$ 21,000.00	25%	
7	Ngaraard State	\$ 23,517.00	24.8%	NO	\$ 23,700.00	25%		\$ 23,700.00	25%		\$ 23,889.60	25.2%	
8	Ngchesar State	\$ 28,548.75	25%	YES	\$ 28,548.75	25%		\$ 28,548.75	25%		\$ 28,548.75	25%	
9	Ngardmau State	\$ 32,964.75	25%	NO	\$ 32,964.75	25%		\$ 32,964.75	25%		\$ 32,964.75	25%	
TQ1		\$255,811.75	TQ2			\$ 255,994.75	TQ3			\$ 255,994.75	T-Q4		\$ 256,184.35
Disbursed		\$234,811.75	Disbursed			\$ 43,951.25	Disbursed			\$ -	Disbursed		\$ -
Prop. Disb.		\$ 21,000.00	Prop. Disb.			\$ 212,043.50	Prop. Disb.			\$ 255,994.75	Prop. Disb.		\$ 256,184.35

The workflow with reporting process from PAN Member States and the disbursement of funds from PANF follows the outline of an infinity symbol. Based on a “quid pro-quo” of verification of activities and reports submitted on a quarterly basis and annual basis, as well as conducted site visits from PANF, then funds are disbursed to PAN State Members. The disbursement process is timely and generally falls within 5 to 10 business days from receipt of quarterly/annual reports.



The process of “quid pro quo” helps ensure accountability and mitigates diversion of funds from PAN State Members. The funds are disbursed to the PAN Member States as a supplemental budget for their conservation areas. Therefore, PANF does not micro-manage the funds. The ownership remains with the State, the Governor, the governing board members, and conservation coordinator in managing the conservation funds in accordance to their laws, accounting process, management plan, and established standard procedures.

- ❖ **PAN States/Sites**
 - 9 Members @ \$1.0Mn total budget in YR1
 - YR2 -2013 goal: Add 4 New States/PAN Members
 - Long Term Goal: All 16 States and highly valued biodiversity sites
- ❖ **Conservation Management Plans**
 - Budget, Objectives, & Activities
 - Incorporates objective for income generation
 - ~ Examples: Entrance fees for bird watching, diving, and/or nature hikes
- ❖ **Progress Disbursements**
 - Require Progress Reports - Quarterly & Annually
 - Quarterly Disbursements
 - ~ Flexible schedule - Based on progress performance

State Visits – Outreach & Awareness Program

Public Relations is another important task to be maintained for PANF to manage expectations, build relationships and foster clear communication and understanding of PAN, the stakeholders, PAN State Members and the general community. Therefore, following the disbursement of funds in July 2012 to PAN member States, PANF conducted an outreach/awareness visit to each

of the Governors or authorized representative of all 9 PAN member State for an individual interview and assessment of their conservation programs as well as to build rapport and better understanding of each State specific needs and concerns. In addition, following the individual meetings, PAN State Visits were organized to provide each State the financial update on Green Fees and the Endowment Fund, as well as provide an introduction of the PANF team and the governing board members. PAN member States visited include Melekeok, Ngardmau, Aimeliik, and Ngchesar. For one reason or the other, be it conflict of schedules due to conferences, travels, inaugurations, elections, or other reasons, the remaining 5 PAN member States are being scheduled for State visits to in FY 2013.

Additional Outreach and Awareness on PANF and the Sustainable Finance Mechanism on green fee, the endowment fund, and disbursement process with general program updates to stakeholders include a partnerships with Palau Conservation Society (PCS), The Nature Conservancy (TNC), Palau International Coral Reef Center (PICRC), and MCT.

In partnership PCS, an outreach/awareness program was conducted for the members of the Council of Chiefs and Ngeremlengui State. While in partnership with TNC, PANF awareness presentation was conducted for the Belau Watershed Alliance (BWA) and at a separate time, learning exchange on PANF was conducted for neighboring countries that included the Federated States of Micronesia and The Republic of the Marshall Island. Further information sharing and awareness was conducted in partnership with PICRC for the JICA supported Coral Reef Learning Exchange, with students/audiences from Tuvalu, Palau, Philippines, and Japan. Taking the awareness and outreach program to the next level, the partnership with MCT involved an awareness presentation of PANF's sustainable finance mechanism for PAN at an international arena at the Asia Pacific Association of Fiduciary Studies (APAFS) with approx. 300+ audience from various countries, including FSM, Palau, Hong Kong, US, Philippines, to name a few. It was a panel presentation that included MCT, PCS, TNC, and PANF.

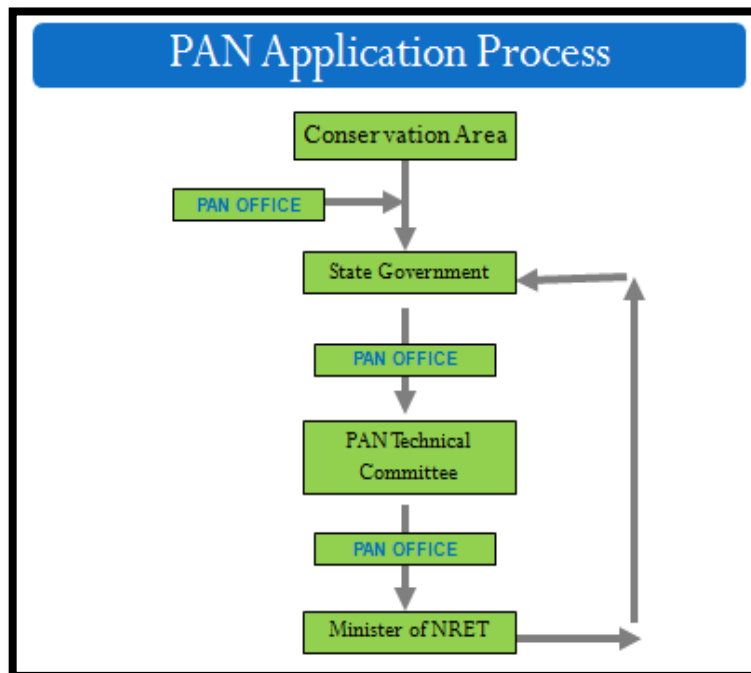
Objective 3 -Work in Progress:

- Continue PAN State Member Visits – The remaining 5 States: Ngarchelong, Hatohobei, Ngiwal, Kayangel, and Ngaraard State.
- Support capacity building for the PAN State Members, including but not limited to the accounting & report writing, documentation procedures, and other professional development that are needed and beneficial to PAN State Members.
- Working with PAN Office & PAN Technical Committee to create PAN Network Design
- Source technical & financial support for the States and prospective PAN Members.
- Review and assess management plans to include 4 new PAN Member States, specifically Koror State, Airai State, Peleliu State, and Sonsorol State.

- Support and help build on the objective of the PAN member States to develop a business model for their resources to generate income, ex: site visit fees, diving fees, eco-tour with bird watching fee, and other similar income generation mechanism.

Objective 4: Identify the linkages and align PANF's partnerships

The PAN Office, as the PAN Coordinator links the network -- from the conservation site, the people, the community based organization, the non-government organizations, the community outreach and awareness programs, the State Government, the PAN Technical Committee with the science and technical expertise. PAN Coordinator links the network to advise the Minister of Natural Resources, Environment, & Tourism on the nomination of a site to PAN.



The composition of the PAN Technical Committee incorporates the key scientific and technical expertise within the network for reviewing the technical aspect of a conservation site:

- ✓ Department of Agriculture – Director or his designee
- ✓ Bureau of Marine Resource – Director or his designee
- ✓ PICRC – Head of Research Department
- ✓ Bureau of Arts and Culture – Director or his designee
- ✓ Bureau of Lands & Survey – Director or his designee
- ✓ Environmental Quality Protection Board – Executive Officer
- ✓ PCS – Executive Director or his designee
- ✓ Attorney General’s Office- Attorney General or her designee
 - Individuals – Technical Experts: Steven Victor – Marine Biologist
 - Dr. Alan Olsen – Entomologist
 - Madelsar Ngiraingas – SLM Coordinator

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

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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 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 <u>30 2011</u>
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>	<u>-</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.