

Fiscal Year 2016

Annual Report

Protected Areas Network Fund (PAN Fund)

The Palau Protected Areas Network Fund (PAN Fund) is pleased to present its annual report for fiscal year 2016. This report is provided pursuant to the annual reporting requirement set forth in RPPL 7-42 and includes brief background & purpose of PAN Fund, performance of all investments, financial statements for all receipts and expenditures, report on grants or donations and allocation of monies received from such grants or donations, list of projects financed by PAN Fund and the result of these projects, evaluation of the effectiveness of operations and management, identification and analysis of additional funding, legislation, or other resources required to carry out the objectives of the PAN, PANF, and the sustainable financing of the PAN, and Audit Report for fiscal year 2016.

**Palau Protected Areas Network Fund (PAN Fund)
Fiscal Year 2016 Annual Report**

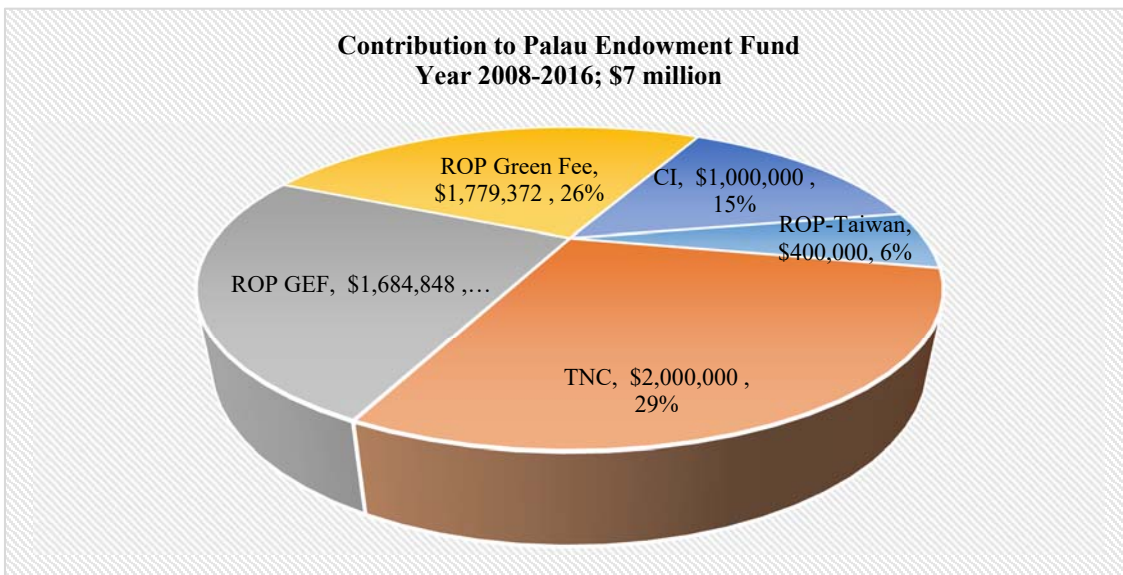
I. Background & Purpose

The Protected Areas Network 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 purpose of PAN Fund is to serve as a financial trustee corporation for the environmental impact fee or “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 (PAN), 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 green fee, donations, grants and income and other property derived from or attributable to the investment. The green 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.

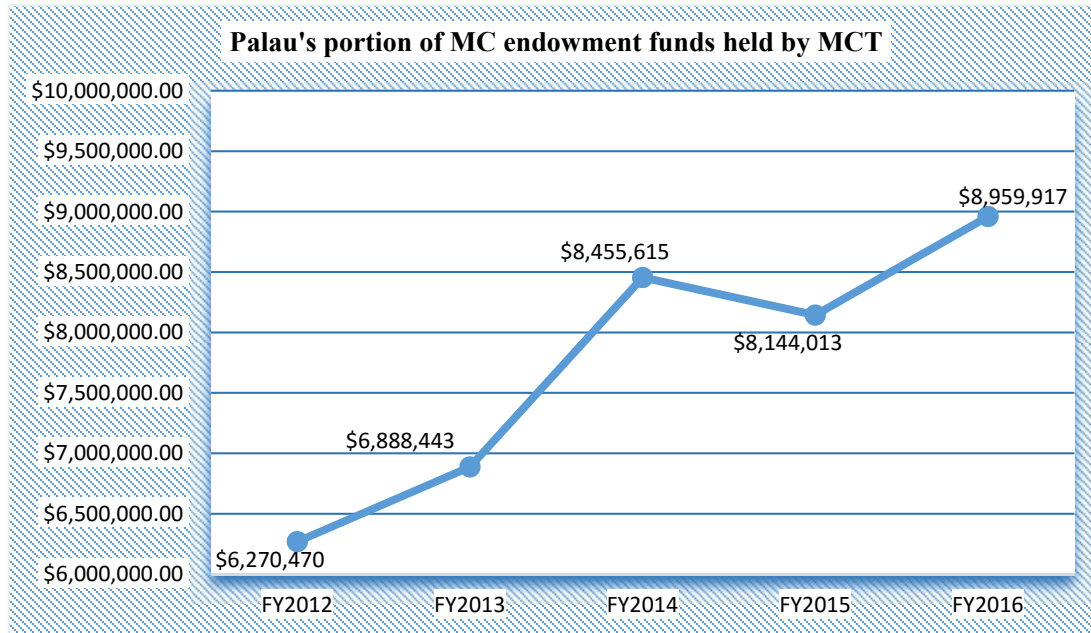
II. Performance of all investments

In 2006, Palau joined the Micronesia Challenge (MC), a regional effort to promote and support conservation effort across Micronesia. Through the Micronesia Challenge, Palau established a Micronesia Challenge Endowment Fund to provide additional financial support for Palau’s conservation sites. In July 7, 2014 the PAN Fund adopted its first Country Program Strategy (CPS). This CPS summarizes how the Republic of Palau will manage and distribute investment earnings from its MC Endowment Fund. Consistent with the CPS, PAN Fund continued its contribution to the Endowment Fund through annual allocation of green fee. Based on financial data, total contribution to Palau’s endowment account in Micronesia Challenge Trust (MCT) is approximately \$7 million.



Of this amount, roughly \$1.8 million was contributed through green fee allocation; \$1.7 million from Global Environment Facility (GEF); \$.4 million from ROP; and remaining \$3 million from matching fund programs from both The Nature Conservancy (TNC) and Conservation International (CI).

As of September 30, 2016, Palau’s portion of MC endowment funds held by MCT is approximately \$8,959,917. The following chart further illustrates the trend in Palau’s portion of the MC endowment funds from fiscal year 2012 to fiscal year 2016.



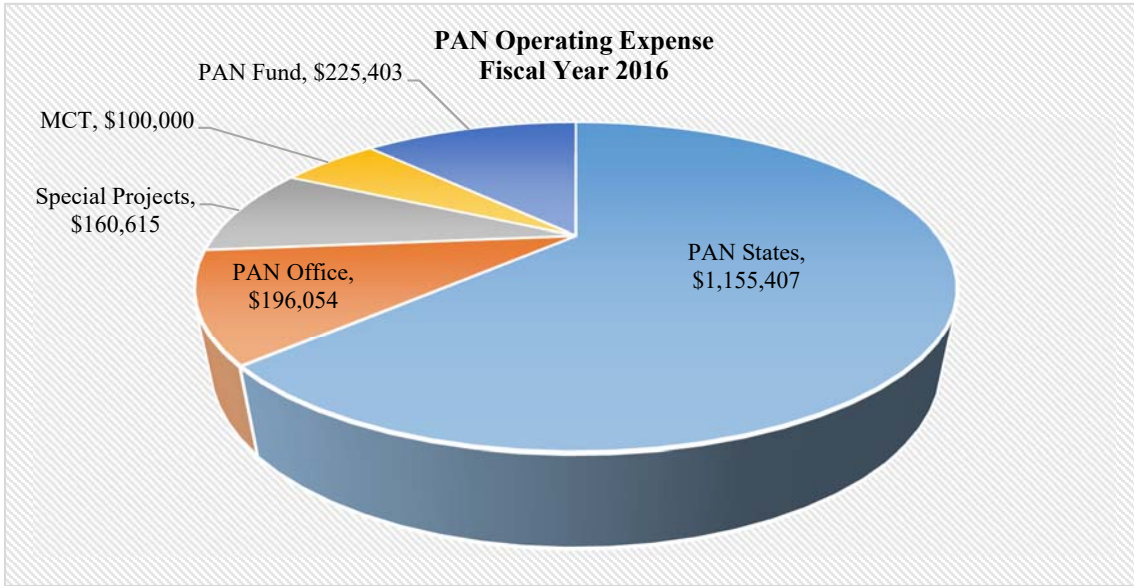
Also included as Attachment I, is the most recent MCT Investment Report for 1st quarter of fiscal year 2017, which is 4th Quarter for MCT. Based on this report the overall value of the MC endowment fund is now \$18,514,064. Palau’s portion of the MC endowment fund is now \$9,082,203 or 49 percent of the overall value of \$18,514,064.

III. Financial statements for all receipts and expenditures made during the financial year 2016

Total revenues realized in fiscal year 2016 is approximately \$2,011,276. Of this amount \$2 million is derived from the green fee; \$7,500 is derived from audit reimbursement and remaining \$3,776 is derived from accumulated bank interests. No external funding or grants were received during fiscal year 2016.

For expenditures made during the fiscal year 2016, PAN Fund disbursed a sum of \$1,837,479. Approximately 63 percent or \$1.2 million was disbursed to PAN Site/States while the remaining 37 percent or \$682,072 was disbursed to various allocation items such as PAN Institutional System: (PANO), Special Projects, MCT and PAN Fund.

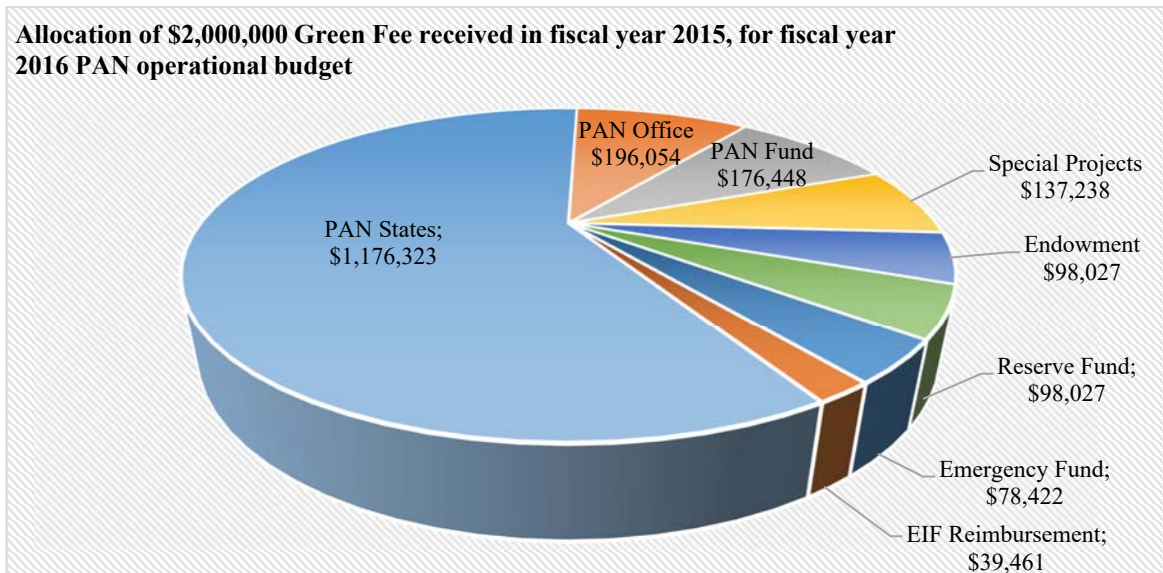
The following chart further illustrate the breakdown of operating expenses for fiscal year 2016. *For more information on revenues received and expenditures made, refer to Attachment II: PAN Fund Annual Audit Report for fiscal year 2016.*



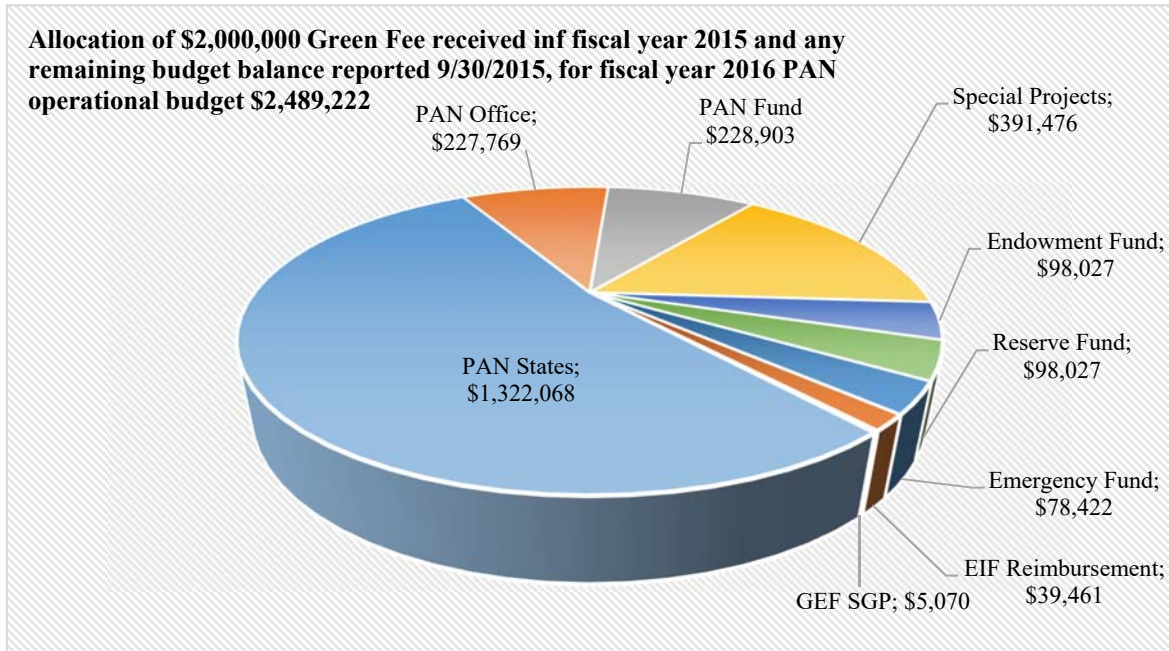
IV. All grants or donations and allocation of monies received from such grants or donations;

The budget allocation process currently implemented by PAN Fund is such that all revenues (with exceptions to donations, external grants, etc.) derived from green fee for a current year are allocated to subsequent fiscal year operational budget of the PAN. This allocation method is part of the overall strategy by PAN Fund for ensuring consistent allocations as well as fiscal sustainability. Included in this strategy are specific allocations to emergency fund, reserve fund and endowment fund accounts to mitigate risks and buffer economic downturns and environmental impacts attributed to climate change (i.e., typhoons, tsunamis, rising sea levels, drought, etc.).

In fiscal year 2015, PAN Fund received a sum of \$2 million environmental impact fee from the Bureau of National Treasury. This represents the maximum amount of environmental impact fees that PAN Fund is eligible to receive from the National Government to be used for the general operations of the PAN. Any



excess of the \$2 million is distributed equally and disbursed directly to PAN States. The following chart illustrate the allocation of all green fee received in fiscal year 2015 and any remaining budget balances reported fiscal year ended September 30, 2015, as allocated to fiscal year 2016 for PAN operation.



V. List of projects financed by PAN Fund and the result of these projects as to the viability of PAN

Following is a list of allocation items approved by PAN Fund Board of Directors for fiscal year 2016 along with summary of progress toward achieving PAN mandate.

Projects	Summary
PAN States	As displayed in Section III of this report, approximately \$1.2 million was disbursed to the PAN States to finance their work plan. The difference of the \$1.3 million allocated to PAN States in fiscal year 2016 (in Section IV) and the \$1.2 million disbursed (in Section III) is the amount of encumbered funds pending quarterly reports. This amount also represents the level of carryover funds carried forward to fiscal year 2017. Upon receipt of all expenditure data, PAN Fund is in the process to consolidate detailed expenditure data for PAN and will report as they become available. It is expected that this detailed expenditure report will show the level of expenditures for different budget and program categories utilized by the PAN and will guide Management in allocation of resources and financing activities.
PAN Office	In March 13, 2013, PAN Fund & PAN Office entered into an agreement with the purpose of clearly identifying the roles and responsibilities of both offices in regards to funding and to enhance cooperation between PAN Office and PAN Fund in their mandate for promoting Protected Areas Network. Based on this agreement, PAN Fund continues to allocate funds each fiscal year for the operation of the PAN Office. In fiscal year 2016, the PAN Fund disbursed a sum of \$227,769 to the PAN Office. These funds allowed PAN Office to fulfill its mandate and its role in facilitating PAN State reporting to PAN Fund for disbursements.

Special Projects	Special Projects allocation was established in fiscal year 2016. The objectives of the Special Projects are much like Competitive Grant in which proposed activities must contribute to the Protected Areas Network and the sustainable development of its communities. It entails projects identified by PAN Office to have significant benefits to the PAN Sites. In fiscal year 2016, PAN Fund Board of Directors allocated \$391,476 to Special Projects. Five special projects were approved by the Board of Directors, which included special project to the Bureau of Arts & Culture, Bureau of Land & Survey, Strategic Planning & Retreat, Northern Reef Fisheries Management Project II, and Management Plan Review.
Endowment Fund	Refer to Section II: Performance of All Investments
Reserve Fund	As mandated in the PAN Act § 3422 (c)(1), the PAN Fund administers a Reserve Fund that sets aside 5% of the total green fee allocated to PAN Fund by the Government of Palau each fiscal year. This Reserve Fund is to be used by PAN Fund to compensate for negative fluctuations in the Green Fees collected during any given year. In fiscal year 2016 PAN Fund Board of Directors allocated \$98,027 to Reserve Fund Account. Cumulative balance as of September 30, 2016 was at \$372,312.
Emergency Fund	The objective of the Emergency Fund is to provide extraordinary funding (additional to those included in the PAN member State/Site work plans) to assist PAN Sites with emergency costs arising from a natural disaster or accidents. In fiscal year 2014, in the wake of Typhoon Haiyan, PAN Fund disbursed a sum of \$31,000 to support six PAN member states. This amount was allocated to each member states following a needs assessment conducted by the PAN Office. Funds were mobilized toward restoration of PAN Site operations. In fiscal year 2016 PAN Fund Board of Directors allocated additional \$78,422 to Emergency Fund Account. Cumulative balance as of September 30, 2016 is at \$266,631.
GEF SGP Grant	The Global Environment Facility Small Grants Programme Project (GEF SGP) is a grant applied for by PAN Fund in fiscal year 2015 and completed in fiscal year 2016. Total project cost was \$70,839 of which \$50,000 was financed through GEF SGP program while remaining \$20,839 was financed through in-kind contributions from PAN Fund's administrative cost. Through this project, PAN Fund was able to support the Protected Areas Network Office in assessing the management effectiveness of the PAN Sites utilizing the Protected Areas Management Effectiveness or PAME Assessment Tool. The assessment identified three areas of gaps and needs namely, (a) Rules and Regulations; (b) Standard Operating Procedures; and (c) Education & Outreach. The project also allowed for the development of the PAN Status Report. The PAN Status report is a comprehensive report covering progress of the Protected Areas Network since its inception.

VI. Evaluation of the effectiveness of operations and management

Please refer to Attachment II: PAN Fund Annual Audit Report for fiscal year 2016.

VII. Identification and analysis of additional funding, legislation, or other resources required to carry out the objectives of the PAN, PANF, and the sustainable financing of the PAN.

Efforts have been made by PAN Fund in seeking alternative funding to carry out the objectives of the PAN. In fiscal year 2014, PAN Fund received a \$50,000 grant from GEF. This grant project officially completed in fiscal year 2016 and resulted in PAME assessment for all PAN Sites as well as completion of a comprehensive PAN Status Report.

For fiscal year 2017, PAN Fund remains committed to take part in the implementation of GEF 5 activities. The objective of GEF 5 project is to support Palau's two linked national efforts to protect biodiversity and sustainably use natural resources: the Protected Areas Network (PAN) and the Sustainable Land Management (SLM) Initiative. This project will enable PAN Fund to commission a formal review and update of the PAN Sustainable Financing Plan and the actual condition of the environmental impact fee and grants, to include a monitoring and reporting program. PAN Fund is also considering taking part in the implementation of the Oceans 5 grant project, with the understanding that the objectives and activities of Palau Marine Sanctuary, as applicant to Oceans 5, complement PAN initiatives. PAN Fund is hoping to utilize this opportunity to further build its capacity and to better position itself as a capable organization in managing PAN and conservation funds.

PAN Fund will continue to explore ways to further diversify the PAN investment portfolio thus minimizing risks while accelerating fund growth so investment targets can be achieved in a reasonable timeframe. Fiscal year 2017 will be an interesting year, as PAN Fund will continue to discuss endowment earnings, accumulated reserve funds & interests and to seek alternative investment approach and strategies that will contribute to the achievement of sustainable financing for PAN. The implementation of these strategies is critical, not only to compensate for any unforeseen fluctuation in green fee but to the balance the effect of the cap placed on the amount of environmental impact fee that PAN is eligible for each fiscal year from the National Government. The cap which is currently set at \$2 million may need to be revisited as it is currently contributing to reduction in overall allocation of resources to PAN projects. Moreover, the cap is contributing to less capital contribution to the endowment fund thus decelerating achievement of investment targets.

VIII. Audit Report

As mandated by RPPL 7-42, PAN Fund is required every year to hire an outside, internationally recognized independent auditor to conduct audit of the financial records of the PAN Fund. PAN Fund contracted Deloitte & Touche to audit financial records for fiscal year 2016. *Please refer Attachment II: Fiscal Year 2016 Annual Audit Report.*

Attachment I:
MCT Investment Report 12/31/2016

Micronesia Conservation Trust

Comparative Performance Analysis Report

Presented by: **Asia Pacific Group of Raymond James**

4th Quarter 2016

RAYMOND JAMES®

THE REPORT IS BASED ON TRANSACTION RECORDS AND PORTFOLIO VALUATIONS SUPPLIED BY THE CLIENT. THE REPORT IS COMPLETE AND ACCURATE TO THE BEST OF OUR KNOWLEDGE.

PLEASE NOTE:

AVAILABLE TO YOU UPON WRITTEN REQUEST, AT NO COST, IS AN INVESTMENT ADVISORY DISCLOSURE DOCUMENT (RAYMOND JAMES' FORM ADV, PART 2A). IF YOU WOULD LIKE A COPY, PLEASE CONTACT YOUR RAYMOND JAMES REPRESENTATIVE.

FOURTH QUARTER HIGHLIGHTS



U.S. equity led the way with a post-U.S. election rally.



Non-U.S. investments were challenged by an increasingly nationalist environment and a strong U.S. dollar.



The U.S. Federal Reserve raised its interest rate 0.25%, pushing bond yields higher and prices lower.

EQUITY

This quarter most U.S. equity holdings produced positive returns in the fourth quarter, spurred by a post-election rally. Investor confidence in U.S. assets grew in anticipation the new administration will promote economic growth through fiscal stimulus policies and a more business-friendly regulatory environment. Within two weeks of the election, all four major U.S. stock indices – the S&P 500, Dow Jones, Nasdaq and Russell 2000 small cap – reached new highs. For the quarter, U.S. large caps returned 3.82%, as measured by the Standard & Poor's 500 index, and U.S. small- to

The Trump Effect

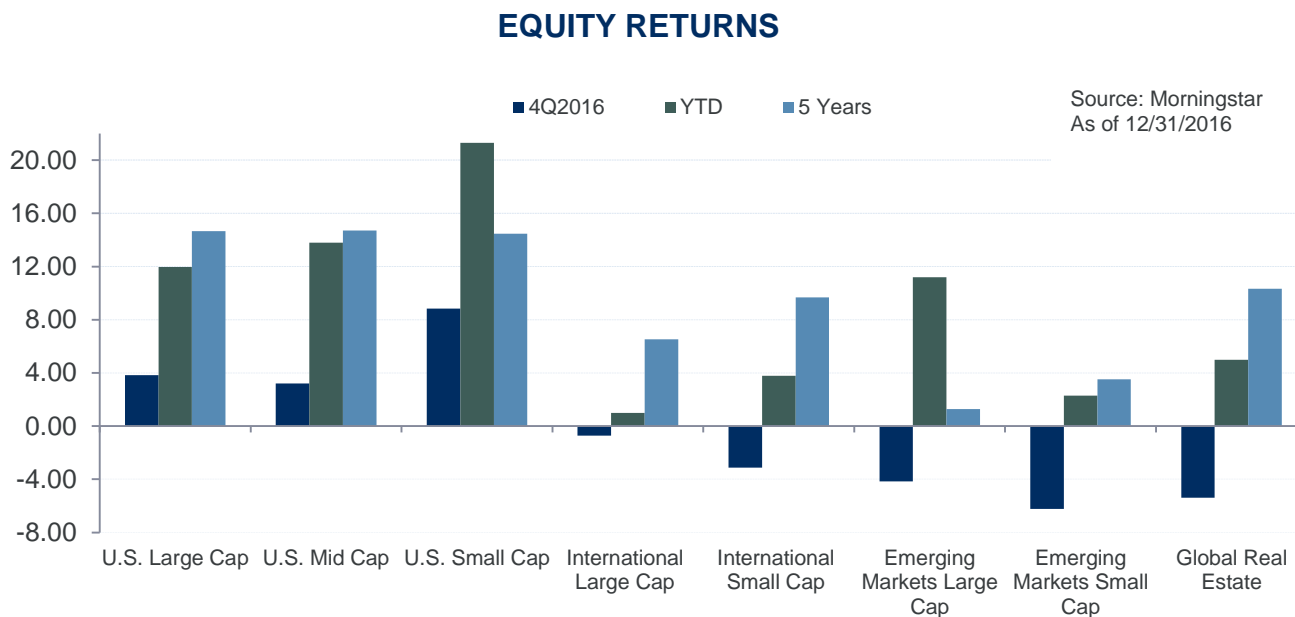
The U.S. equity markets rallied after Donald J. Trump won the U.S. presidential election in November. Encouraged by the potential for economic growth through proposed fiscal stimulus efforts, as well as a more conducive regulatory environment, investor confidence in U.S. assets increased. With the same political party controlling the White House and Congress, the expectation is for less gridlock in Washington, D.C. Even so, the impact of policies that promote economic growth, such as infrastructure spending, likely will not be felt until 2018 and beyond. Trump also pledged during his campaign to enact tariffs on U.S. imports as a means of supporting U.S. labor. The possibility of retaliatory tariffs on U.S. exports, however, could hamper the earning potential of U.S. multinational companies.

Commentary is generally written from a passive standpoint and there are limitations to this data as strategies include active management. Actively managed strategies and holdings may have reacted differently during the quarter than the market segments discussed herein. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns. Asset Allocation and Diversification does not ensure a profit or protect against a loss. All investments are subject to risk. There is no assurance that any investment strategy will be successful. Past performance is not a guarantee of future results. Index definitions are available upon request.

mid-caps returned 6.12%, as measured by the Russell 2500 index. U.S. Equity income returned 4.14%, as measured by the Dow Jones U.S. Select Dividend index.

While U.S. assets rallied, non-U.S. holdings produced unfavorable returns, with headwinds including continued political uncertainty in Europe, weaker economic growth among emerging markets, and a strong U.S. dollar that created unfavorable exchange rates for U.S. investors in all non-U.S. asset classes.

Despite attractive price-to-earnings valuations, international developed large caps returned -0.71%, as measured by the MSCI EAFE index; international developed small- to mid-caps returned -3.12, as measured by the MSCI EAFE NR index; emerging markets returned -4.16%, as measured by the MSCI Emerging Markets index; and global real estate returned -5.39%, as measured by the FTSE EPRA/NAREIT Developed index.



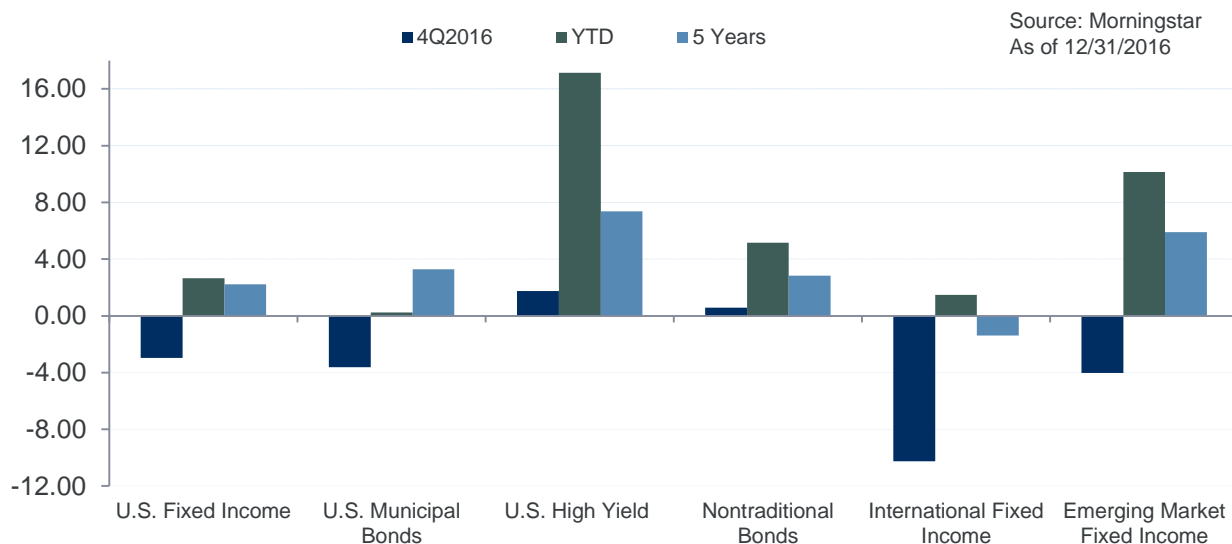
Asset Allocation and Diversification does not ensure a profit or protect against a loss. All investments are subject to risk. There is no assurance that any investment strategy will be successful. Past performance is not a guarantee of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns. Dividends are not guaranteed and a company's future ability to pay dividends may be limited. Index definitions are available upon request.

FIXED INCOME

Interest-rate-sensitive fixed income produced unfavorable returns, due to challenges not only by the late-quarter surge in the U.S. equity market, but also the U.S. Federal Reserve’s decision to raise its federal funds rate by 0.25% in December, its only rate increase of 2016. Core fixed income returned -2.98%, as measured by the Bloomberg Barclays U.S. Aggregate index, representing its worst quarterly return in more than 36 years. Short-term bonds returned -0.39%, as measured by the Bloomberg Barclays U.S. Government/Credit 1-3 Year TR index.

High yield bonds returned 1.75%, as measured by the Bloomberg Barclays U.S. High Yield 2% Issuer Cap index. Non-traditional bonds posted nearly flat returns at 0.61%, as measured by the U.S. Fund Nontraditional Bond peer group.

FIXED INCOME RETURNS

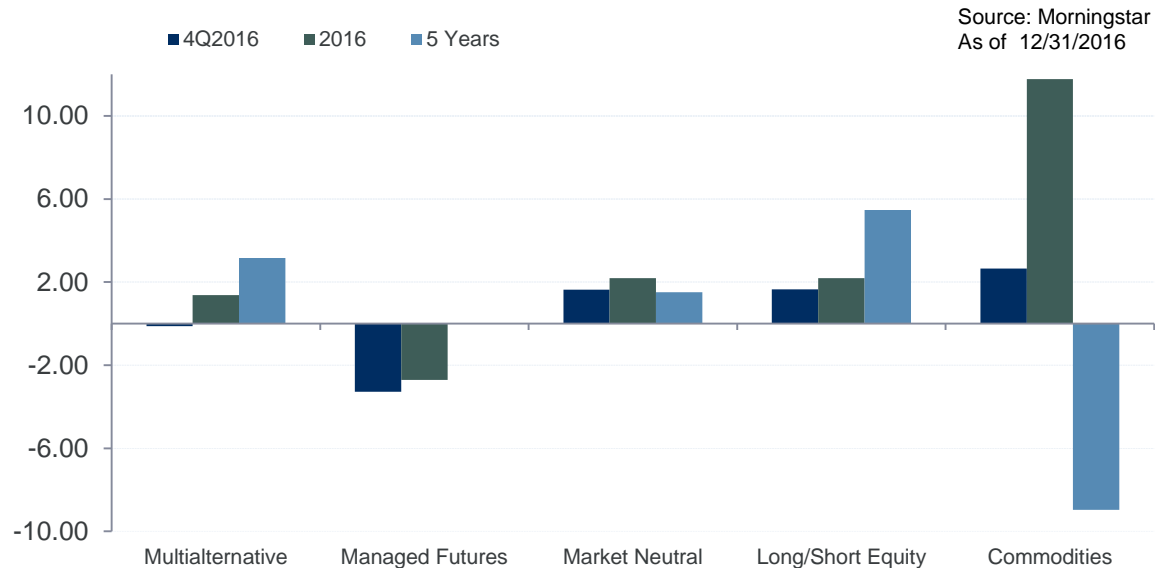


Asset Allocation and Diversification does not ensure a profit or protect against a loss. All investments are subject to risk. There is no assurance that any investment strategy will be successful. Past performance is not a guarantee of future results. Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index or peer group would incur fees and expenses which would reduce returns. Index and peer group definitions are available upon request.

ALTERNATIVES

Challenged by uneven environments in the equity and fixed income markets, alternative investments generally had unfavorable impacts. Multi-alternative investments returned -0.11%, as measured by the U.S. Fund Multialternative peer group.

ALTERNATIVE INVESTMENTS



Asset Allocation and Diversification does not ensure a profit or protect against a loss. All investments are subject to risk. There is no assurance that any investment strategy will be successful. Past performance is not a guarantee of future results. Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index or peer group would incur fees and expenses which would reduce returns. Index and peer group definitions are available upon request.

Asset classes addressed in charts throughout the commentary were based on the following indices and peer group data: (US Large Cap) S&P 500 TR (1989), (US Mid Cap) Russell Mid Cap TR USD, (US Small Cap) Russell 2000 TR USD, (International Large Cap) MSCI EAFE NR USD, (International Small Cap) S&P Developed Ex US Small TR USD, (Emerging Markets Large Cap) MSCI EM NR USD, (Emerging Markets Small Cap) MSCI EM Small NR USD, (Global Real Estate) FTSE EPRA/NAREIT Developed TR USD, (US Fixed Income) BbgBarc US Agg Bond TR USD, (US Municipal Bonds) BbgBarc Municipal TR USD, (US High Yield) BbgBarc US HY 2% Issuer Cap TR USD, (Nontraditional Bonds) US Fund Nontraditional Bond, (International Fixed Income) BbgBarc Gbl Agg Ex USD TR USD, (Emerging Market Fixed Income) JPM EMBI Global Diversified TR USD, (Multialternative) US Fund Multialternative, (Managed Futures) US Fund Managed Futures, (Market Neutral) US Fund Market Neutral, (Long/Short Equity) US Fund Long-Short Equity, and (Commodities) Bloomberg Commodity TR USD.

The foregoing content reflects the opinions of Raymond James Asset Management Services and is subject to change at any time without notice. Content provided herein is for informational purposes only. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct.

Past performance is not a guarantee of future results. Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index or peer group would incur fees and expenses that would reduce returns. All investing involves risk. Asset allocation and diversification does not ensure a profit or protect against a loss. Dividends are not guaranteed and a company's future ability to pay them may be limited.

There is no assurance that any investment strategy will be successful. All investments carry a certain degree of risk and you may incur a profit or a loss.

RISK: It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk and no one particular investment style or manager is suitable for all types of investors, you may incur a profit or a loss.

- High-yield (below investment grade) bonds are not suitable for all investors and may present greater credit risk than

other bonds.

- There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Bond and bond fund investors should carefully consider risks such as: interest rate risk, credit risk, liquidity risk and inflation risk.

- International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic instability.

- Investing in emerging markets can be riskier than investing in well-established foreign markets. Emerging and developing markets may be less liquid and more volatile because they tend to reflect economic structures that are generally less diverse and mature and political systems that may be less stable than those in more developed countries.

- Investing in emerging markets can be riskier than investing in well-established foreign markets. Emerging and developing markets may be less liquid and more volatile because they tend to reflect economic structures that are generally less diverse and mature and political systems that may be less stable than those in more developed countries.

- Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. Stocks of smaller or newer or mid-sized companies may be more likely to realize more substantial growth as well as suffer more significant losses than larger or more established issuers.

- Commodities trading is generally considered speculative because of the significant potential for investment loss. Among the factors that could affect the value of the fund's investments in commodities are cyclical economic conditions, sudden political events, changes in sectors affecting a particular industry or commodity, and adverse international monetary policies. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

- Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Alternative investments are generally considered speculative in nature and may involve a high degree of risk, particularly if concentrating investments in one or few alternative investments. These risks are potentially greater and substantially different than those associated with traditional equity or fixed income investments. The investment strategies used by certain Funds may require a substantial use of leverage. The investment strategies employed and associated risks are more fully disclosed in each Fund's prospectus, which is available from your financial advisor.

- Changes in the value of a hedging instrument may not match those of the investment being hedged.

Not FDIC or NCUA Insured • No Bank Guarantee • May Lose Value

880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // 727.567.1000 // RJFREEDOM.COM

©2017 Raymond James & Associates, Inc., Member New York Stock Exchange/SIPC ©2017 Raymond James Financial Services, Inc., member FINRA/SIPC
AMS17-0037 Expires 1/31/18

Micronesia Conservation Trust
 Report Period Ending December 31, 2016
 Fiscal Year Ends: December

	Market Value	Current Allocation	QTD 09/30/2016 12/31/2016	Fiscal YTD	Latest 3 Years	Latest 5 Years	Latest 7 Years	Inception to Date	Inception Date
Total Relationship Policy Index	\$18,514,064	100.00%	0.12%	7.25%	3.16%	7.26%	5.30%	7.06%	12/31/2008
6.2% Total Return Index			1.49%	6.20%	6.20%	6.20%	6.20%	6.20%	
Large Cap Value									
Aristotle Capital Management	\$2,584,649	13.96%	5.71%	18.05%	N/A	N/A	N/A	10.56%	10/31/2014
Russell 1000 Value			6.68%	17.34%	8.59%	14.80%	12.72%	7.03%	
Large Cap Growth									
Winslow Capital	\$2,274,402	12.28%	-3.41%	-1.62%	5.00%	12.60%	N/A	9.87%	01/31/2011
Russell 1000 Growth			1.01%	7.08%	8.55%	14.50%	13.03%	12.14%	
Mid Cap Value									
Boston Partners	\$2,037,258	11.00%	4.99%	17.52%	7.19%	15.50%	N/A	12.35%	01/31/2011
Russell 2500 Value			9.34%	25.20%	8.22%	15.04%	13.52%	11.63%	
International Equity									
Lazard International	\$2,666,795	14.40%	-3.88%	-2.79%	-0.86%	N/A	N/A	3.34%	05/31/2013
MSCI EAFE			-0.71%	1.00%	-1.60%	6.53%	3.81%	2.27%	
Emerging Markets									
Lazard Emerging Markets	\$1,829,430	9.88%	-2.81%	23.30%	-0.91%	3.60%	N/A	0.98%	01/31/2011
MSCI Emerging Markets			-4.16%	11.19%	-2.55%	1.28%	0.47%	-1.89%	
Fixed Income									
Garcia Hamilton	\$3,671,327	19.83%	-2.62%	3.01%	3.81%	N/A	N/A	2.70%	12/31/2012
Barclays Aggregate Bond			-2.98%	2.65%	3.03%	2.23%	3.62%	1.74%	
Templeton Global Bond	\$1,826,330	9.86%	8.27%	6.61%	1.38%	4.35%	N/A	3.39%	01/31/2011
Citi WGBI Non-US			-10.84%	1.81%	-2.18%	-1.94%	0.05%	-0.80%	
Master Limited Partnership									
Miller Howard MLP	\$765,315	4.13%	1.85%	6.69%	N/A	N/A	N/A	-14.66%	01/31/2015
Alerian MLP Index Trust TR			2.04%	18.31%	-5.80%	2.25%	8.13%	-9.69%	
Real Estate									
Adelante	\$858,557	4.64%	-3.08%	3.91%	N/A	N/A	N/A	0.44%	01/31/2015
NAREIT			-3.28%	8.63%	12.66%	11.98%	13.59%	2.69%	

****All returns are gross of management fees

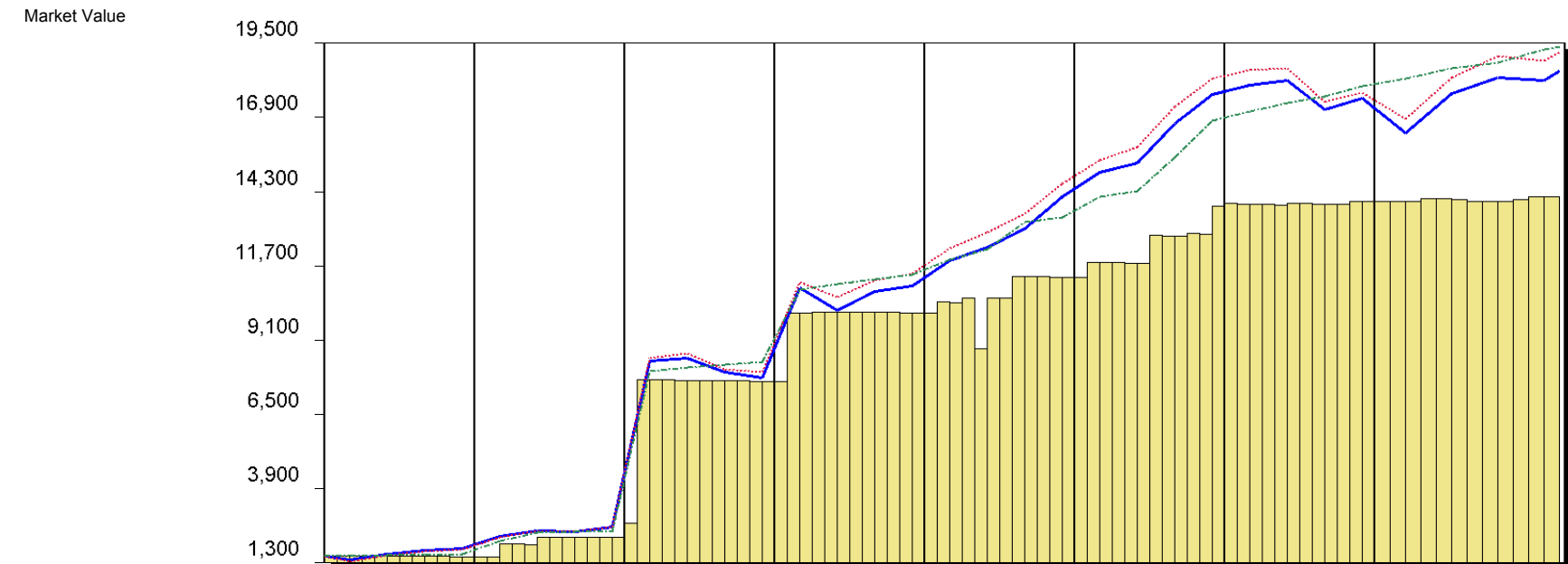
The Policy Index is comprised of: 12.5% Russell 1000 Growth, 12.5% Russell 1000 Value, 10% Russell 2500, 15% MSCI EAFE, 10% MSCI Emerging Markets, 20% Barclays Aggregate Bond, 10% MSCI WGBI Ex US, 5% Alerian MLP TR, 5% NAREIT

Prior to 11/10/2015 the Adelante account was managed by Voya Clarion.

Micronesia Conservation Trust Total Relationship

Report Period: 12-31-08 to 12-31-16
Fiscal Year Ends: December

Market Value vs. Invested Capital



Ending Value (\$000)

	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
— Micronesia Conse	1,524	1,815	3,142	7,694	11,205	14,360	17,528	17,237	18,514
■ Invested Capital	1,524	1,508	2,682	7,650	10,030	11,288	13,895	13,948	14,112
Investment Gain/Loss	00	307	460	44	1,176	3,072	3,633	3,289	4,402
Net Contrib. Since Incep.	00	-15	1,159	6,126	8,506	9,765	12,371	12,424	12,589
..... Policy Index	1,524	1,771	3,190	8,001	11,565	14,698	18,154	17,535	19,177
- - - - 6.2% Total Retur	1,524	1,602	2,913	8,372	11,421	13,451	16,970	18,075	19,366

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.

The independent variable is the Policy Index

The independent variable is the 6.2% Total Return Index

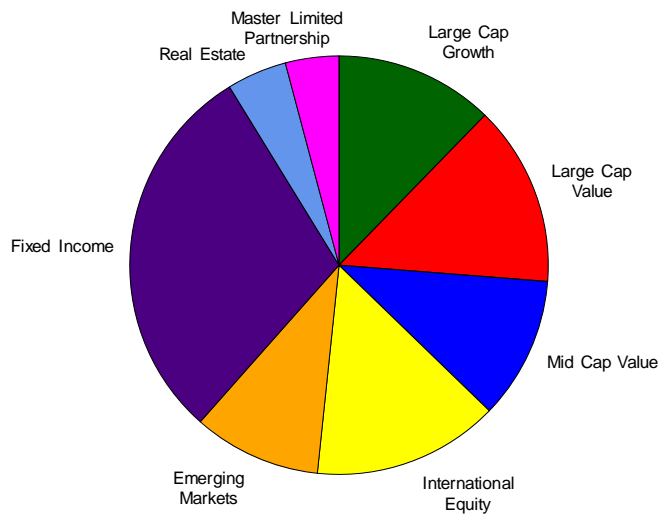
Micronesia Conservation Trust

Total Composite

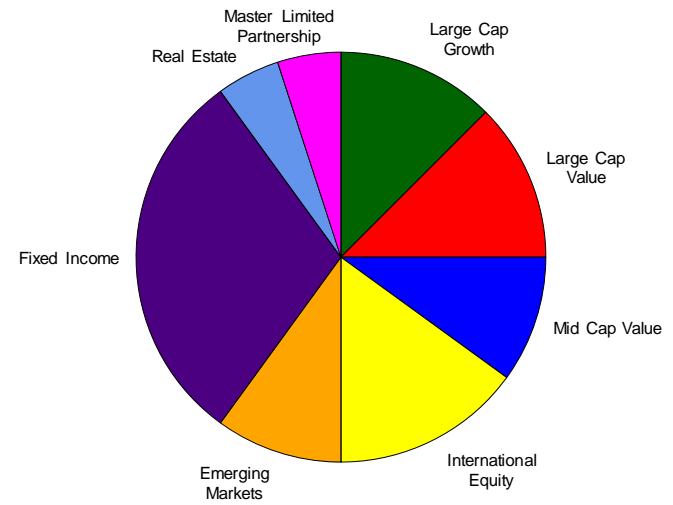
Report Period: 12-31-16
Fiscal Year Ends: December

Current Allocation versus Target Allocation

Current Allocation



Target Allocation



	Market Value	Current Allocation%	Target Allocation%	% Difference
Large Cap Growth	\$2,274,402	12.28	12.50	-0.22
Large Cap Value	2,584,649	13.96	12.50	1.46
Mid Cap Value	2,037,258	11.00	10.00	1.00
International Equity	2,666,795	14.40	15.00	-0.60
Emerging Markets	1,829,430	9.88	10.00	-0.12
Fixed Income	5,497,657	29.69	30.00	-0.31
Real Estate	858,557	4.64	5.00	-0.36
Master Limited Partnership	765,315	4.13	5.00	-0.87
TOTAL	\$18,514,064	100.00	100.00	

Micronesia Conservation Trust Total Relationship

Report Period: 12-31-08 to 12-31-16

Fiscal Year Ends: December

Account Activity Summary

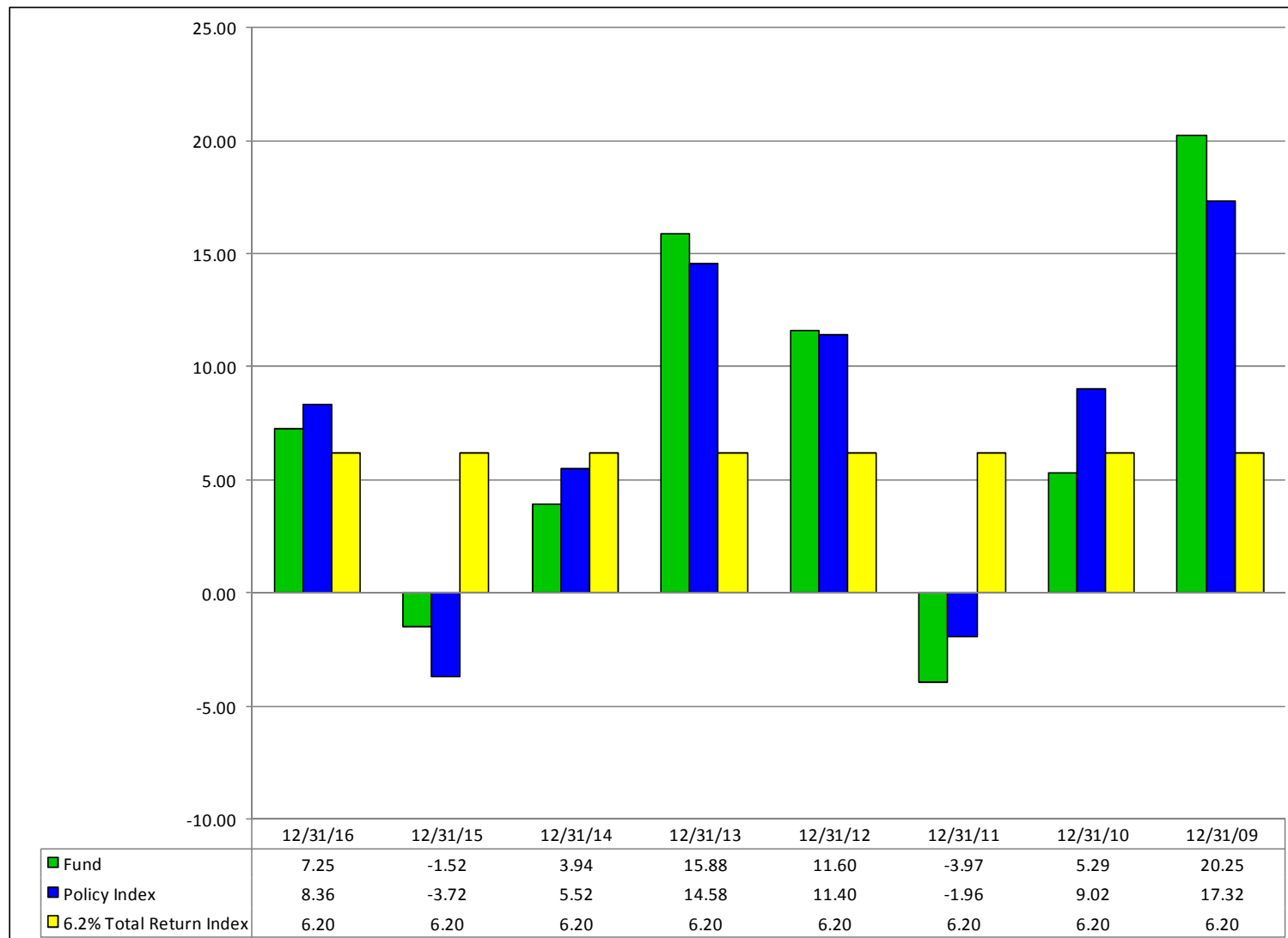
	Latest Quarter	Fiscal Yr to Date	Latest 1 Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	From 12-31-08
Beginning Mkt Value	18,420,765	17,236,719	17,236,719	14,360,469	7,694,368	N/A	1,523,620
Contributions	109,352	260,670	260,670	3,112,026	8,606,018	N/A	14,845,771
Withdrawals	3,635	96,096	96,096	288,249	2,143,908	N/A	2,257,387
Management Fees	36,143	139,533	139,533	170,297	170,297	N/A	170,297
Net Flows	69,575	25,041	25,041	2,653,480	6,291,813	N/A	12,418,087
Interest/Dividend Income	96,858	459,381	459,381	1,307,113	1,950,165	N/A	2,268,107
Gains/Losses	-73,134	792,923	792,923	193,002	2,577,718	N/A	2,304,250
Total Earnings	23,724	1,252,304	1,252,304	1,500,115	4,527,883	N/A	4,572,357
As of 12-31-16							
Ending Mkt Value	18,514,064	18,514,064	18,514,064	18,514,064	18,514,064	N/A	18,514,064
Time-Weighted Return	0.12	7.25	7.25	3.16	7.26	N/A	7.06
Policy Index	-0.69	8.36	8.36	3.26	7.04	N/A	7.34
6.2% Total Return Index	1.49	6.20	6.20	6.20	6.20	N/A	6.20

Returns are calculated gross of management fees using trade date positions and including accrued income.
Returns for greater than one year are annualized.

Micronesia Conservation Trust Total Relationship

Report Period: 12-31-16
Fiscal Year Ends: December

Comparative Returns for Last 10 Years : Gross of Fees

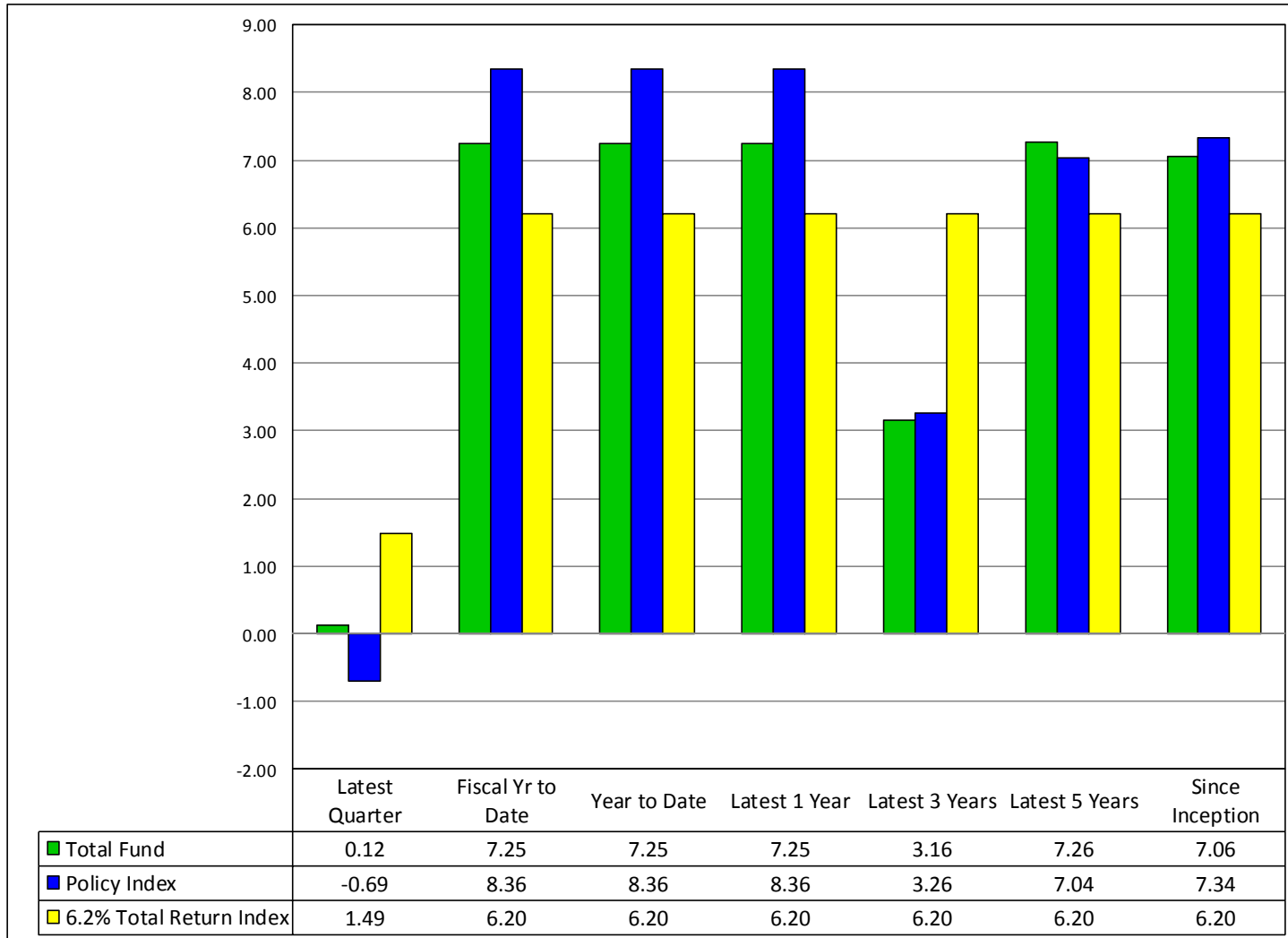


Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Total Relationship

Report Period: 12-31-08 to 12-31-16
Fiscal Year Ends: December

Comparative Returns for Fiscal Periods: Total Fund : Gross of Fees



Returns are calculated using trade date positions and including accrued income. Returns for greater than one year are annualized.

Micronesia Conservation Trust Total Relationship

Report Period: 12-31-08 to 12-31-16
Fiscal Year Ends: December

Risk/Return Analysis



Description	Annual Return	Standard Deviation	Alpha	Beta	R-Squared	Sharpe Ratio	Available Data	
							Beg Date	End Date
A Total Relationship	7.06	9.89	-0.14	0.99	0.98	0.70	12/31/08	12/31/16
B Policy Index	7.34	9.80	0.00	1.00	1.00	0.74	12/31/08	12/31/16
C 6.2% Total Return Index	6.20	0.03	5.92	0.00	0.12		12/31/08	12/31/16
D Citi 3 Month T-Bill	0.10	0.02	0.00	0.00	0.00	0.00	12/31/08	12/31/16

Returns are calculated gross of management fees using trade date positions and including accrued income. Returns for greater than one year are annualized.
The independent variable is the Policy Index

**Attachment II:
PAN Fund Audit Report for Fiscal Year 2016**

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

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2016

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Protected Areas Network Fund:

We have audited, in accordance with the 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, the financial statements of the Protected Areas Network Fund (PAN Fund), which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 23, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PAN Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PAN Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of PAN Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PAN Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the PAN Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PAN Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLC

January 23, 2017

PROTECTED AREAS NETWORK FUND

Unresolved Prior Year Findings
Year Ended September 30, 2016

There are no unresolved findings from prior year audits of PAN Fund.

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 January 23, 2017 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

January 23, 2017



Protected Areas Network Fund

PRA Bldg #202 | P.O. Box 6094, Koror, Palau 96940
Phone: (680) 488-FUND (3863) | Direct: (680) 488-1313
Fax: (680) 488-1314 | Website: www.palaupanfund.org

Management's Discussion and Analysis Year Ended September 30, 2016

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, 2016, with selected comparative information for the fiscal years ended September 30, 2015 and 2014.

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:

	2016	2015	2014
Current assets	\$ 3,032,023	\$ 3,069,329	\$ 2,734,591
Capital assets	<u>12,590</u>	<u>16,739</u>	<u>19,122</u>
Total assets	<u>3,044,613</u>	<u>3,086,068</u>	<u>2,753,713</u>
Current liabilities	<u>104,425</u>	<u>319,677</u>	<u>219,013</u>
Net position:			
Net investment in capital assets	12,590	16,739	19,122
Restricted	<u>2,927,598</u>	<u>2,749,652</u>	<u>2,515,578</u>
Total net position	\$ <u>2,940,188</u>	\$ <u>2,766,391</u>	\$ <u>2,534,700</u>

OVERVIEW OF FINANCIAL STATEMENTS, CONTINUED

Statements of Revenues, Expenses and Changes in Net Position:

	2016	2015	2014
Operating revenues	\$ -	\$ -	\$ -
Operating expenses	<u>1,837,479</u>	<u>1,821,436</u>	<u>1,898,207</u>
Operating loss	(1,837,479)	(1,821,436)	(1,898,207)
Nonoperating revenues	<u>2,011,276</u>	<u>2,053,127</u>	<u>1,909,126</u>
Change in net position	173,797	231,691	10,919
Net position at beginning of year	<u>2,766,391</u>	<u>2,534,700</u>	<u>2,523,781</u>
Net position at end of year	\$ <u>2,940,188</u>	\$ <u>2,766,391</u>	\$ <u>2,534,700</u>

Statements of Cash Flows:

Cash flows from operating activities	\$ (2,047,906)	\$ (1,677,933)	\$ (1,803,276)
Cash flows from noncapital financing activities	2,011,276	2,013,651	2,416,798
Cash flows from capital financing activities	<u>-</u>	<u>(3,059)</u>	<u>(5,116)</u>
Net (decrease) increase in cash	(36,630)	332,659	608,406
Cash at beginning of year	<u>3,064,899</u>	<u>2,732,240</u>	<u>2,123,834</u>
Cash at end of year	\$ <u>3,028,269</u>	\$ <u>3,064,899</u>	\$ <u>2,732,240</u>

FINANCIAL HIGHLIGHTS

PAN Fund's capital assets decreased by 25% from \$16,739 in fiscal year 2015 to \$12,590 in fiscal year 2016 and by 12% from \$19,122 in fiscal year 2014 to \$16,739 in fiscal year 2015. See note 3 to the financial statements for more detailed information on PAN Fund's capital assets and changes therein.

Total net position increased by 6% from \$2,766,391 in fiscal year 2015 to \$2,940,188 in fiscal year 2016 and by 9% from \$2,534,700 in fiscal year 2014 to \$2,766,391 in fiscal year 2015. The increase was largely due to increases in green fee collections.

Total liabilities decreased by 67% from \$319,677 in fiscal year 2015 to \$104,425 in fiscal year 2016 and increased by 46% from \$219,013 in fiscal year 2014 to \$319,677 in fiscal year 2015.

Total operating expenses increased by 0.9% from \$1,821,436 in fiscal year 2015 to \$1,837,479 in fiscal year 2016 and decreased by 4% from \$1,898,207 in fiscal year 2014 to \$1,821,436 in fiscal year 2015.

Green fee revenues for fiscal years 2016 and 2015 were \$2,000,000. This amount also represents the allowable green fee revenues that PAN Fund is eligible to receive from the ROP government. Green fee revenues increased by 6% from \$1,882,024 in fiscal year 2014 to \$2,000,000 in fiscal year 2015.

Net cash decreased by 1% from \$3,064,899 in fiscal year 2015 to \$3,028,269 in fiscal year 2016 and increased by 12% from \$2,732,240 in fiscal year 2014 to \$3,064,899 in fiscal year 2015. The net cash at the end of the year is inclusive of ROP's cash transfer in of green fee revenue of \$2,000,000; \$7,500 for audit expense reimbursement and encumbered funds allocated for fiscal year 2016 but pending disbursements.

ECONOMIC OUTLOOK

Based on trending data provided by the Palau Visitors Authority, the number of visitors decreased by 16% in 2016 (138,408 compared to 164,931 in 2015) and increased by 32% in 2015 (164,931 compared to 125,338 in 2014).

ECONOMIC OUTLOOK, CONTINUED

PAN Fund continues to rely heavily on environmental fees as the main source of revenue to finance PAN operations. This amount is currently capped at \$2 million. The amount of environmental fees per year is dependent on the number of visitors to Palau. The number of visitors is highly dependent on many factors. A simple change in aviation strategy can result in increases or decreases in the number of visitors, as well as any changes to the environmental fee structure.

PAN Fund is mindful of these factors and its implications on the main source of revenue for the PAN. PAN Fund has taken steps to mitigate risks associated with the environmental fee by adopting a comprehensive sustainable financing plan. Included in the financing plan is an annual budget allocation strategy whereby the budget for the subsequent fiscal year is based on realized environmental fee revenues for current year. Also included in the allocation strategy are allocations to an emergency fund, a reserve fund and an endowment fund to mitigate risks and buffer economic downturns and environmental impacts attributed to climate change (i.e., typhoons, tsunamis, rising sea levels, drought, etc.). PAN Fund is also actively exploring opportunities to further diversify its revenue streams and investments in an effort to create sustainable financing to support the PAN.

CONCLUDING SUMMARY

The Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in PAN Fund's report on the audit of financial statements, which is dated June 17, 2016. That Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

PAN Fund continues to evolve with the application of adaptive management and is in sync with the evolution of the Protected Areas Network. As the financing mechanism for the Protected Areas Network, PAN Fund continues to improve its policies and procedures to better serve the 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 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, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash	\$ 3,028,269	\$ 3,064,899
Prepaid expenses	<u>3,754</u>	<u>4,430</u>
Total current assets	3,032,023	3,069,329
Capital assets, net	<u>12,590</u>	<u>16,739</u>
	<u>\$ 3,044,613</u>	<u>\$ 3,086,068</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Accounts payable	\$ -	\$ 215,139
Accrued expenses	4,425	6,361
Due to Micronesia Conservation Trust	<u>100,000</u>	<u>98,177</u>
Total liabilities	<u>104,425</u>	<u>319,677</u>
Commitment		
Net position:		
Net investment in capital assets	12,590	16,739
Restricted	<u>2,927,598</u>	<u>2,749,652</u>
Total net position	<u>2,940,188</u>	<u>2,766,391</u>
	<u>\$ 3,044,613</u>	<u>\$ 3,086,068</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ -	\$ -
Operating expenses:		
PAN site/states	1,155,407	1,169,122
PAN Institutional System	196,054	193,541
Special projects	160,615	68,741
Salaries and wages	127,304	105,624
Micronesia Conservation Trust contribution	100,000	98,177
Professional development	22,967	40,002
Rent	14,400	13,645
Communications	10,996	8,349
Employee benefits	8,728	6,714
Audit	7,500	7,500
Utilities	4,434	4,117
Depreciation	4,149	5,442
Advertisements	3,026	666
Outreach/awareness meetings	2,901	11,507
Repairs and maintenance	1,904	1,621
Professional fees	650	5,389
Grants	-	41,819
Competitive grant expense	-	23,486
Other	16,444	15,974
	<u>1,837,479</u>	<u>1,821,436</u>
Total operating expenses		
Operating loss	<u>(1,837,479)</u>	<u>(1,821,436)</u>
Nonoperating revenues:		
Transfer in from Republic of Palau	2,007,500	2,007,500
Grant revenue	-	43,400
Other income	3,776	2,227
	<u>2,011,276</u>	<u>2,053,127</u>
Total nonoperating revenues		
Change in net position	173,797	231,691
Net position at beginning of year	<u>2,766,391</u>	<u>2,534,700</u>
Net position at end of year	<u>\$ 2,940,188</u>	<u>\$ 2,766,391</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Micronesia Conservation Trust contribution	\$ (98,177)	\$ (96,750)
Cash payments to PAN sites/states and institutional system	(1,559,030)	(1,160,094)
Cash payments to suppliers for goods and services	(258,781)	(314,801)
Cash payments to employees for services	<u>(131,918)</u>	<u>(106,288)</u>
Net cash used for operating activities	<u>(2,047,906)</u>	<u>(1,677,933)</u>
Cash flows from noncapital financing activities:		
Transfer in from Republic of Palau	2,007,500	1,968,024
Grant revenue	-	43,400
Other income	<u>3,776</u>	<u>2,227</u>
Net cash provided by noncapital financing activities	<u>2,011,276</u>	<u>2,013,651</u>
Cash flows from capital financing activities:		
Fixed asset acquisitions	<u>-</u>	<u>(3,059)</u>
Net cash used for capital financing activities	<u>-</u>	<u>(3,059)</u>
Net (decrease) increase in cash	(36,630)	332,659
Cash at beginning of year	<u>3,064,899</u>	<u>2,732,240</u>
Cash at end of year	<u>\$ 3,028,269</u>	<u>\$ 3,064,899</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,837,479)	\$ (1,821,436)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	4,149	5,442
(Increase) decrease in assets:		
Prepaid expenses	676	(2,079)
Increase (decrease) in liabilities:		
Accounts payable	(215,139)	135,040
Accrued expenses	(1,936)	3,673
Due to Micronesia Conservation Trust	<u>1,823</u>	<u>1,427</u>
Net cash used for operating activities	<u>\$(2,047,906)</u>	<u>\$(1,677,933)</u>
Supplemental disclosure of noncash transactions:		
Due to Republic of Palau offset against transfer in:		
Noncash transfer in from Republic of Palau	\$ -	\$ 39,476
Noncash decrease in due to Republic of Palau	<u>-</u>	<u>(39,476)</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2016 and 2015

(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, 2016 and 2015, MOF remitted \$2,000,000 for this purpose, which PAN Fund recorded as transfers in from ROP. PAN Fund recorded \$7,500 as transfers in from ROP for audit expense reimbursement for the years ended September 30, 2016 and 2015. The payables 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 \$100,000 and \$98,177 for the years ended September 30, 2016 and 2015, 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, 2016 and 2015;
- 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, 2016 and 2015

(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, 2016 and 2015, PAN Fund provided funding to PAN sites/states for mobilization and implementation of PAN work plan of \$1,155,407 and \$1,169,122, 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 \$160,615 and \$68,741 for the years ended September 30, 2016 and 2015, 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, 2016 and 2015, PAN Fund provided funding for activities specified in an annual work plan of PAN Office in the amounts of \$196,054 and \$193,541, 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, 2016 and 2015

(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 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.

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, 2016 and 2015, cash was \$3,028,269 and \$3,064,899, respectively, and the corresponding bank balances were \$3,156,722 and \$3,136,579, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2016 and 2015, bank deposits of \$500,000 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 \$100.

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, 2016 and 2015

(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, 2016 and 2015.

New Accounting Standards

During the year ended September 30, 2016, PAN Fund implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued 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). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the 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 January 2016, GASB issued 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. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. 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.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2016, GASB issued 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 provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Reclassification

Certain 2015 balances in the accompanying financial statements have been reclassified to conform to the 2016 presentation.

(3) Capital Assets

Capital assets of PAN Fund as of September 30, 2016 and 2015, are summarized below:

	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		(10,955)	(4,149)	-	(15,104)
		<u>\$ 16,739</u>	<u>\$ (4,149)</u>	<u>\$ -</u>	<u>\$ 12,590</u>
		Balance at October 1, 2014	Additions	Deletions	Balance at September 30, 2015
Furniture, fixtures and equipment	3 years	\$ 19,234	\$ 3,059	\$ (1,599)	\$ 20,694
Vehicle	3 years	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>7,000</u>
		26,234	3,059	(1,599)	27,694
Less accumulated depreciation		(7,112)	(5,442)	1,599	(10,955)
		<u>\$ 19,122</u>	<u>\$ (2,383)</u>	<u>\$ -</u>	<u>\$ 16,739</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.

PROTECTED AREAS NETWORK FUND

Notes to Financial Statements
September 30, 2016 and 2015

(4) Contributions, Continued

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, 2016, 2015, 2014, 2013 and 2012, PAN Fund contributed \$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. PAN Fund has determined that investment income will not be available for use until total contributions plus investment income totals \$10,000,000, and thus PAN Fund has not recognized related investment income in the accompanying financial statements. At September 30, 2016 and 2015, the Palau portion of MC endowment funds held by MCT was \$8,959,917 and \$8,144,013, respectively.

In accordance with RPPL 7-42, to support network wide activities, PAN Fund and/or PAN Office have entered into grants with the Palau International Coral Reef Center (PICRC) and the Palau Conservation Society (PCS) in the amounts of \$50,000 and \$54,931, respectively. The grant to PICRC, a component unit of ROP, is for strengthening and streamlining technical assistance on ecological monitoring for PAN States/Sites. The grant to PCS is for support with enabling legislation and capacity building for effective management of conservation programs for PAN States/Sites. These grants were closed-out during fiscal year 2015. Accordingly, during the years ended September 30, 2016 and 2015, \$-0- and \$23,486, respectively, were disbursed for these grants which are recorded as competitive grant expense in the accompanying statements of revenues, expenses and changes in net position.

(5) Commitment

PAN Fund leases office space in Koror, Palau. Total future minimum lease payment under this lease for the subsequent year ending September 30, 2017 is \$3,600.