PALAU VISITORS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Visitors Authority:

We have audited the accompanying statements of net assets of the Palau Visitors Authority (PVA), a component unit of the Republic of Palau, as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of PVA'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 PVA'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, such financial statements present fairly, in all material respects, the financial position of the Palau Visitors Authority as of September 30, 2009 and 2008, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of PVA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Member of
Deloitte Touche Tohmatsu

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2010, on our consideration of PVA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

June 19, 2010

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Management's Discussion and Analysis
Year Ended September 30, 2009

Purpose

The mission of the Palau Visitors Authority (PVA) is to promote and encourage the development and marketing of tourism as one of the main revenue earning sectors of the Republic of Palau (ROP) along with fishery and agriculture.

To achieve this, PVA undertakes the role of the country's tourism authority whose position is to be visionary and present a strong image of Palau as a special destination appealing to discerning, high spending, and environmentally conscientious clientele. To this end, it invests about 60% of its annual budget on marketing and promotion activities.

At the local level, PVA is responsible for generating awareness and understanding of tourism within the community, to ensure that the Palauan people understand the importance of sustainable tourism for the country, what tourism is about, what it does and how it effects the people, the community, and Palau as an island nation.

Organization

PVA is composed of a seven-member Board of Directors appointed by the President, with advice and consent of the Senate, to serve terms of two years. Its primary duties are to develop policies and guidelines that account for the effective and efficient management of the organization. The Board approves a yearly work plan that is implemented by the Managing Director who oversees the day-to-day activities and operations of PVA.

The Board has another key responsibility in that it recommends to the President and Congress the passage of legislation aimed at ensuring that tourism is developed in the best interests of ROP.

PVA acts as a liaison between the tourism industry and the community, particularly the States, by assessing and encouraging development of potential tourist sites and land-based activities for the purpose of spreading tourist traffic throughout ROP and diversifying tourism attractions aside from water and diving activities.

There are three (3) main operational areas within the PVA structure: 1) Marketing & Research, 2) Community & Support Services, and 3) Accounting. There are currently thirteen (13) full-time and one (1) part-time staff on board. Contract personnel are hired from time to time to undertake specific projects as necessary.

The customers of PVA are visitors to ROP, tourism industry operators, State and National governments, the public and internal associates of PVA.

Statement of Goals and Objectives

Mission Statement:

We are committed to promote our heritage and the unique attractions of Palau through sustainable tourism development and the encouragement of responsible practices.

Medium Term Goals:

PVA's ultimate goal is for the diversification of market shares by attracting high-end and quality travelers in key markets (Japan, North America, Taiwan, Philippines and Europe) to enjoy Palau as a choice and desirable destination and, in addition, to tap into new potential markets such as Australia, China, Guam, Hong Kong, Korea and Russia.

Fiscal Year Objectives:

1. Collaboration with the Belau Tourism Association (BTA) and the Palau Chamber of Commerce (PCOC) to develop a "Tourism Strategic Plan" for Palau for the next 5 to 10 years. Such plan will identify branding, mission, goals, preferred markets and identification of high-end and quality tourists;

2. Increase visitor arrivals by at least 3% to 5%;

3. Enhancement of the PVA website (www.visit-palau.com) to include the capability of uploading various promotions from hotels/resorts, dive/tour operators and the States within Palau;

4. Promotion of Palau as a "choice and desirable destination" through marketing collaterals, printed media, audio media, trade shows, exhibitions, sales seminars and through PVA overseas representations;

5. Aggressive marketing through internet (e-marketing);

6. 100% implementation of "Bai Rating" to all hotels/resorts/motels in Palau; and

7. Community and support services to include:

    a. Partnership with PVA State Representatives on development and promotion of tourist attractions within each State as well as development of road signs and maps.

    b. Strengthen public awareness for tourism related economic activities concerning the preservation of Palau's natural and cultural heritage.

    c. Islandwide "Beautification Campaign" to improve Palau's attractiveness.

    d. Promulgate regulations to improve procedures and penalties of tour operator licensing.

    e. Coordinate with the Koror State Government on implementation of tour guide standards as a requirement for all tour guides.

    f. Source and conduct customer service training to tourism related partners such as hoteliers, tour operators, Immigration and Customs personnel, etc.

Funding

PVA receives its annual operational funding from the Unified Budget appropriation of the OEK. Its total budget for FY09, FY08 and FY07 was $725,000, $725,000 and $925,000, respectively, of which $13,544, $13,678 and $12,560 was approved for reprogramming by ROP in FY09, FY08 and FY07 respectively. PVA's budget is allocated based on its main functions of authority as follows: 59.3% for Marketing & Research, 26.2% for Administration and 14.5% for Community Services and related program developments.

Overview of Financial Statements

PVA's investment in capital assets for the fiscal year ended September 30, 2009 was $96,800 as compared to $113,203 in fiscal year 2008 and $115,847 in fiscal year 2007. This was due to assets being fully depreciated.

Statements of Net Assets:

	2009	2008	2007
Current assets	$ 200,318	$ 221,408	$ 267,476
Capital assets	96,800	113,203	115,847
Total assets	297,118	334,611	383,323
Current liabilities	70,688	92,481	85,518
Net assets:			
Invested in capital assets	96,800	113,203	115,847
Unrestricted	129,630	128,927	181,958
Total net assets	$ 226,430	$ 242,130	$ 297,805

Statements of Revenues, Expenses and Changes in Net Assets:

	2009	2008	2007
Operating revenues	$ 24,892	$ 17,635	$ 627
Operating expenses	765,592	798,310	813,477
Loss from operations	(740,700)	(780,675)	(812,850)
Nonoperating revenues	725,000	725,000	888,030
Change in net assets	(15,700)	(55,675)	75,180
Net assets at beginning of year	242,130	297,805	222,625
Net assets at end of year	$ 226,430	$ 242,130	$ 297,805

Statements of Cash Flows:

	2009	2008	2007
Cash flows from operating activities	$ (729,613)	$ (746,967)	$ (816,074)
Cash flows from noncapital financing activities	676,896	806,806	752,314
Cash flows from capital and related financing activities	(772)	(12,542)	(5,470)
Net (decrease) increase in cash	(53,489)	47,297	(69,230)
Cash at beginning of year	128,438	81,141	150,371
Cash at end of year	$ 74,949	$ 128,438	$ 81,141

Statements of Net Assets:

1. ROP receivables amounted to $128,900 at September 30, 2009 as compared to $80,796 at September 30, 2008 and $162,602 at September 30, 2007. Because of unfavorable cash availability from ROP for the fiscal year ended 2009, PVA was unable to execute certain activities that were delayed in FY08.

2. Employee receivables and travel advances amounted to $12,926 in FY09 as compared to $15,725 in FY08 and $10,993 in FY07. The amounts are attributed to the lack of reconciliation of travel advances in a timely manner; thus, PVA needs to improve on implementation and adherence of its travel policy.

3. The allowance for doubtful accounts increased to $17,193 in FY09 as compared to $4,307 in FY08 and $18,379 in FY07. Proposed adjustments were not made for accounts pertaining to travel advances in prior years.

4. Accounts payable decreased to $19,825 in FY09 as compared to $43,315 in FY08 and $28,199 in FY07. This improvement is due to aggressive follow-up on allotment disbursements from ROP to stay within a thirty to sixty day aging.

5. At September 30, 2009, 2008 and 2007, PVA had $96,800, $113,203 and $115,847 respectively, in fixed assets, net of accumulated depreciation where applicable, including furniture, fixtures and equipment, building improvements and vehicles, The decrease over the years is due to improved reconciliation and posting of fixed assets depreciation. See note 3 to the financial statements for more information on PVA's fixed assets.

6. Total net assets decreased to $226,430 in FY09 as compared to $242,130 in FY08 and $297,805 in FY07, which decrease is primarily attributed to decreases in net fixed assets.

Statements of Revenues, Expenses and Changes in Net Assets:

1. Operating revenues amounted to $24,892 in FY09 as compared to $17,635 in FY08 and $627 in FY07 from sales of miscellaneous promotional items and collection of contributions from local tourism industry partners for their share of cost in participating in trade shows, exhibitions, product seminars and road shows at various key markets.

2. Operating expenses - contractual services amounted to $22,050 in FY09 as compared to $445 in FY08 and $-0- in FY07 due to accounting consultant fees incurred to conduct on-the-job training of accounting personnel.

3. Operating expenses - representation and tours amounted to $265,580 in FY09 as compared to $245,636 in FY08 and $228,639 in FY07. PVA continues to strengthen its efforts on familiarization tours not only in Japan, North America and Europe, but has expanded into the Asia Pacific market to include the Philippines, Taiwan and Australia. Costs were contained within budgeted amounts.

4. Operating expenses - personnel and fringe benefits amounted to $206,139 in FY09 as compared to $229,000 in FY08 and $258,355 in FY07 due to vacancies within Community and Support Services.

5. Operating expenses - registration, booth rental and membership fees amounted to $8,485 in FY09 as compared to $8,050 in FY08 and $9,325 in FY07 due to participation costs being co-shared with interested local tourism industry partners.

Statements of Revenues, Expenses and Changes in Net Assets, Continued:

6. Operating expenses - depreciation amounted to $17,175 in FY09 as compared to $15,186 in FY08 and $19,550 in FY07 due to additions in fixed assets.

7. Operating expenses - communications and postage and supplies and printing amounted to $17,848 in FY09 as compared to $23,863 in FY08 and $20,768 in FY07 due to PVA's continual efforts in minimizing costs by maximizing its publicity and communications in-house, as opposed to outsourcing publicity and communications via fax and telephone.

8. Operating expenses - other amounted to $63,155 in FY09 as compared to $56,064 in FY08 and $30,146 in FY07 due to additional community activities and programs.

9. Nonoperating revenues amounted to $725,000 in FY09 and FY08 as compared to $888,030 in FY07 due to maximization of PVA's budget from ROP.

Concluding Summary

In FY09 and FY08, PVA continued adherence to finance and property management policies and procedures implemented in FY07, which improved operational and financial compliance and controls for PVA's operations. However, due to a high turnover of accounting personnel, consistency in maintaining monthly reconciliations and recordkeeping was not as PVA desired; thus, there is ample room for improvement.

Economic Outlook

Due to the continued global economic crisis and the H1N1 virus, Palau visitor arrivals were at 71,887 in FY09 as compared to 79,259 in FY08 and 88,175 in FY07. As of May 2010, the number of visitor arrivals is at 33,803, a 5.72% increase as compared to May 2009. This can be attributed to positive growth of the Taiwan and North America markets as well as the Australian market. Consequently, PVA started maximizing its marketing and promotional efforts with Continental Airlines and now with PacificFlier Airlines. Additionally, PVA has strengthened its marketing and promotional partnership with Belau Tourism Association for short-haul markets such as Japan, Korea, Philippines, Australia and Guam.

Contacting PVA's Financial Management

This financial report is designed to provide a general overview of PVA's finances and to demonstrate PVA's accountability for the money it receives. The Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in the report on the audit of PVA's financial statements which is dated March 13, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements. If you have questions about the 2008 or 2007 reports, or need additional information, please contact the Managing Director at the Palau Visitors Authority, P.O. Box 256, Koror, Republic of Palau 96940, or e-mail ddeleon.pva@visit-palau.com or call 488-2793 or 488-1930.

PALAU VISITORS AUTHORITY

Statements of Net Assets
September 30, 2009 and 2008

ASSETS

	2009	2008
Current assets:		
Cash	$ 74,949	$ 128,438
Receivables:		
Republic of Palau	128,900	80,796
Employee	12,926	15,725
	141,826	96,521
Less allowance for doubtful accounts	(17,193)	(4,307)
Total receivables, net	124,633	92,214
Prepaid expenses	736	756
Total current assets	200,318	221,408
Fixed assets, net	96,800	113,203
	$ 297,118	$ 334,611

LIABILITIES AND NET ASSETS

	2009	2008
Current liabilities:		
Republic of Palau	$ 24,410	$ 24,410
Accounts payable	19,825	43,315
Accrued expenses	26,453	24,756
Total current liabilities	70,688	92,481
Commitment and contingency		
Net assets:		
Invested in capital assets	96,800	113,203
Unrestricted	129,630	128,927
Total net assets	226,430	242,130
	$ 297,118	$ 334,611

See accompanying notes to financial statements.

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

	2009	2008
Operating revenues:		
Miscellaneous	$ 24,892	$ 17,635
Total operating revenues	24,892	17,635
Operating expenses:		
Representation and tours	265,580	245,636
Personnel and fringe benefits	206,139	229,000
Tourism development, public awareness, public relations and training	118,108	126,608
Other marketing	27,193	79,300
Contractual services	22,050	445
Depreciation	17,175	15,186
Bad debts	12,886	4,447
Communication and postage	10,452	13,680
Registration, booth rental and membership fees	8,485	8,050
Supplies and printing	7,396	10,183
Travel and transportation	5,180	6,150
Trade magazine coverage	1,793	2,376
Rent	-	1,185
Other	63,155	56,064
Total operating expenses	765,592	798,310
Loss from operations	(740,700)	(780,675)
Nonoperating revenues:		
Republic of Palau appropriation	725,000	725,000
Change in net assets	(15,700)	(55,675)
Net assets at beginning of year	242,130	297,805
Net assets at end of year	$ 226,430	$ 242,130

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

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

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 24,892	$ 1,434
Cash payments to suppliers for goods and services	(550,063)	(511,248)
Cash payments to employees for services	(204,442)	(237,153)
Net cash used for operating activities	(729,613)	(746,967)
Cash flows from noncapital financing activities:		
Republic of Palau appropriations	676,896	806,806
Net cash provided by noncapital financing activities	676,896	806,806
Cash flows from capital and related financing activities:		
Fixed asset acquisitions	(772)	(12,542)
Net cash used for capital and related financing activities	(772)	(12,542)
Net (decrease) increase in cash	(53,489)	47,297
Cash at beginning of year	128,438	81,141
Cash at end of year	$ 74,949	$ 128,438
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	$ (740,700)	$ (780,675)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	17,175	15,186
Bad debts	12,886	4,447
(Increase) decrease in assets:		
Employee receivables	2,799	(16,201)
Prepaid expenses	20	23,313
Increase (decrease) in liabilities:		
Accounts payable	(23,490)	15,116
Accrued expenses	1,697	(8,153)
Net cash used for operating activities	$ (729,613)	$ (746,967)

See accompanying notes to financial statements.

(1) Organization

The Palau Visitors Authority (PVA), a component unit of the Republic of Palau (ROP), was formed on November 23, 1982, under the provisions of the Republic of Palau Public Law (RPPL) No. 1-49 for the purpose of implementing tourism programs, including marketing and related responsibilities. The law created a wholly owned public corporation managed by a Board of Directors appointed by the President of the Republic of Palau with the advice and consent of the Olbiil Era Kelulau (OEK - Palau National Legislature).

(2) Summary of Significant Accounting Policies

The accounting policies of PVA 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. PVA 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

Prior to the commencement of each fiscal year, PVA prepares an operating budget and the OEK - Palau National Legislature enacts legislation resulting in an appropriation for the operation of PVA. Budgetary financial statements are not considered to be a disclosure requirement by management.

(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 held in demand or savings accounts. As of September 30, 2009 and 2008, cash was $74,949 and $128,438, respectively, and the corresponding bank balances were $137,300 and $130,776, respectively. Of these amounts, $137,169 and $130,203, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of $137,169 and $100,000, respectively, were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk. PVA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

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 PVA or its agent in PVA'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 PVA'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 PVA'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, PVA'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. PVA does not have a deposit policy for custodial credit risk.

Receivables

PVA grants credit, on an unsecured basis, to individuals, businesses and governmental entities situated in the Republic of Palau. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluation of the collectability of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables charged to expense.

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 $500.

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Accumulated employee annual leave is recognized when such leave is earned. Unpaid accumulated annual leave is recorded as personnel and fringe benefits expense and accrued expenses in the accompanying financial statements. Sick leave expense is recognized when leave is actually taken. Estimated unused sick leave at September 30, 2009 and 2008 was $28,855 and $18,305, respectively.

Republic of Palau Civil Service Pension Trust Fund

PVA 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 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. PVA contributed $21,844, $24,033 and $23,189 to the Fund during the fiscal years 2009, 2008 and 2007, 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. PVA's payroll for fiscal years 2009 and 2008 was covered in total by the Fund's pension plan. The Fund utilizes the actuarial cost method termed "agreement cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 8.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

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

The Fund's October 1, 2007 actuarial valuation determined the unfunded pension benefit obligation as follows:

(2) Summary of Significant Accounting Policies, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued

Participants in pay status	$ 48,968,000
Active participants	46,002,000
Participants with vested deferred benefits	903,000
Total pension benefit obligation	95,873,000
Net assets available for benefits, at market value	48,358,000
Unfunded benefit obligation	$ 47,515,000

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.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses include all direct and administrative revenues and expenses.

Non-operating revenues and expenses result from investing and financing activities including operating grants.

Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, has required PVA 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 PVA pursuant to those stipulations or that expire by the passage of time. At September 30, 2009 and 2008, PVA does not have restricted net assets.
- Unrestricted: net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2009, PVA implemented the following pronouncements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PVA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PVA.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PVA.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PVA.

(3) Fixed Assets

Fixed assets of PVA as of September 30, 2009 and 2008, are summarized below:

	Estimated Useful Lives	Balance at October 1, 2008	Additions	Deletions	Balance at September 30, 2009
Furniture, fixtures and equipment	1 - 10 years	$ 197,520	$ 772	$ -	$ 198,292
Building improvements	15 years	187,551	-	-	187,551
Vehicles	3 - 5 years	45,592	-	-	45,592
		430,663	772	-	431,435
Less accumulated depreciation		(317,460)	(17,175)	-	(334,635)
		$ 113,203	$ (16,403)	$ -	$ 96,800

	Estimated Useful Lives	Balance at October 1, 2007	Additions	Deletions	Balance at September 30, 2008
Furniture, fixtures and equipment	1 - 10 years	$ 197,347	$ 12,542	$ (12,369)	$ 197,520
Building improvements	15 years	189,070	-	(1,519)	187,551
Vehicles	3 - 5 years	45,592	-	-	45,592
		432,009	12,542	(13,888)	430,663
Less accumulated depreciation		(316,162)	(15,186)	13,888	(317,460)
		$ 115,847	$ (2,644)	$ -	$ 113,203

(4) Commitment and Contingency

Republic of Palau Public Laws (RPPL) 8-2 and RPPL 7-37 appropriated $725,000 to PVA for the years ended September 30, 2009 and 2008, respectively, unobligated amounts of which lapse at year end. For the years ended September 30, 2009 and 2008, ROP approved the reprogramming of $13,544 and $13,678, respectively, of PVA's appropriation to other budget activities. PVA recorded $765,592 and $798,310 of expenses against these appropriations and committed $8,900 and $-0- for promotions and marketing expenses during the years ended September 30, 2009 and 2008, respectively. The management of PVA has determined that such commitments may be applied against appropriations. PVA has recorded liabilities to ROP of $24,410 as of September 30, 2009 and 2008 for lapsed funding related to its appropriation for the year ended September 30, 2007.

(5) Risk Management

PVA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. PVA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims have not exceeded this commercial coverage in any of the past three years.