

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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, 2011 and 2010, 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, 2011 and 2010, 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 8 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2012, 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

February 28, 2012



Palau

Visitors Authority

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Management's Discussion and Analysis Year Ended September 30, 2011

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 affects 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 of Directors 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 of Directors 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 main operational areas within the PVA structure: 1) Marketing & Research, 2) Community Support & Services, and 3) Accounting. There are currently ten full-time, one part-time and two contracted staff on board.

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, Korea 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, the Philippines and Russia.

Fiscal Year Objectives:

1. Pursue the "Tourism Action Plan", as developed by the Tri-Org (PVA, the Belau Tourism Association (BTA) and the Palau Chamber of Commerce), for implementation of actions identified for development and sustainability of the tourism industry in Palau.
2. Aggressive marketing and promotions in short-haul markets such as Australia, Guam, Japan, Korea, Taiwan and the Philippines in anticipation of a quick yield on return of investments, due to the global economic crisis that continues to be challenging.
3. Aggressive co-sponsoring/hosting of the Familiarization (FAM) Tours by Medias (for exposures) and Travel Agents (for destination knowledge) for the increase of visitor arrivals from key markets such as Guam, Japan, Korea, Taiwan, the Philippines and Europe (mainly Germany, France, Italy and the United Kingdom).
4. Upgrade the PVA website to be more user friendly and for maximization as a portal for marketing and promoting Palau via the internet.
5. Form a committee (consisting of relevant individuals) for launching and implementation of the "Bai Rating" system for all accommodation properties in Palau to be rated and noted on PVA's website.
6. Priority objectives for Community Support & Services include:
 - a. Enhancement of annual activities, programs and projects (namely WAVE, TAW and Green Fair/Earth Day) to promote community awareness and to support Palau's tourism industry and its sustainability in Palau's economic growth.
 - b. Promotion of the "Palauan Night Market" that provides an opportunity to local small businesses to display and sell authentic "Made in Palau" products (arts, handicrafts, jewelries, etc.) and local cuisines for the enjoyment of visitors and locals alike.
 - c. Promote the "I Love Palau, Keep It Clean" campaign that encourages cleanliness of hamlets, states, attraction sites and rock islands for the continuity of Palau's natural and pristine environment.
 - d. Secure training opportunities for States, government and private sectors for the development of human resources in the areas of customer service, tour guiding, brochure development and grant writing.

- e. Improve partnerships with each State for the development of interpretive signs to utilize at attraction sites and to implement the "Attractions/Sites Inventory" for diversification of tourist activities in the States.

Funding

PVA receives its annual operational funding from the Unified Budget appropriation of the OEK. Its total budget for FY2011, FY2010 and FY2009 was \$605,000, \$627,500 and \$725,000, respectively. PVA's budget is allocated based on its main functions of authority as follows: 27.6% for Administration, 56.7% for Marketing and Research, 15.7% for Community Services and related program developments.

Overview of Financial Statements

PVA's investment in capital assets for FY2011 was \$74,813 compared to \$84,078 in FY2010 and \$96,800 in FY2009. This was due to assets being fully depreciated.

Statements of Net Assets:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 244,852	\$ 221,952	\$ 200,318
Capital assets	<u>74,813</u>	<u>84,078</u>	<u>96,800</u>
Total assets	<u>319,665</u>	<u>306,030</u>	<u>297,118</u>
Current liabilities	<u>74,247</u>	<u>58,108</u>	<u>70,688</u>
Net assets:			
Invested in capital assets	74,813	84,078	96,800
Unrestricted	<u>170,605</u>	<u>163,844</u>	<u>129,630</u>
Total net assets	<u>\$ 245,418</u>	<u>\$ 247,922</u>	<u>\$ 226,430</u>

Statements of Revenues, Expenses and Changes in Net Assets:

Operating revenues	\$ 31,942	\$ 4,908	\$ 24,892
Operating expenses	<u>639,446</u>	<u>610,916</u>	<u>765,592</u>
Loss from operations	(607,504)	(606,008)	(740,700)
Nonoperating revenues	<u>605,000</u>	<u>627,500</u>	<u>725,000</u>
Change in net assets	(2,504)	21,492	(15,700)
Net assets at beginning of year	<u>247,922</u>	<u>226,430</u>	<u>242,130</u>
Net assets at end of year	<u>\$ 245,418</u>	<u>\$ 247,922</u>	<u>\$ 226,430</u>

Statements of Cash Flows:

Cash flows from operating activities	\$ (583,619)	\$ (606,926)	\$ (729,613)
Cash flows from noncapital financing activities	675,471	576,147	676,896
Cash flows from capital and related financing activities	<u>(5,310)</u>	<u>(3,972)</u>	<u>(772)</u>
Net increase (decrease) in cash	86,542	(34,751)	(53,489)
Cash at beginning of year	<u>40,198</u>	<u>74,949</u>	<u>128,438</u>
Cash at end of year	<u>\$ 126,740</u>	<u>\$ 40,198</u>	<u>\$ 74,949</u>

Statements of Net Assets:

1. ROP receivables amounted to \$109,782 in FY2011 as compared to \$180,253 in FY2010. Because of favorable cash availability from ROP for the fiscal year ended 2011, PVA was able to execute most activities that were planned for FY2011.
2. Employee receivables and travel advances amounted to \$2,867 in FY2011 as compared to \$4,512 in FY2010. The decrease is attributed to timely submission of trip reports and reconciliation of travel expense reports.
3. The allowance for doubtful accounts amounted to \$1,482 in FY2011 as compared to \$3,041 in FY2010 due to timely employee payroll deductions.
4. Accounts payable amounted to \$7,724 in FY2011 as compared to \$9,056 in FY2010. This improvement is due to aggressive follow-up on monthly budgetary allotment disbursements from ROP to stay within a thirty to sixty day aging.
5. At September 30, 2011, 2010 and 2009, PVA had invested in capital assets of \$74,813, \$84,078 and \$96,800, respectively, 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 amounted to \$245,418 in FY2011 as compared to \$247,922 in FY2010 and \$226,430 in FY2009, which is primarily attributed to timely and proper depreciation of fixed assets.

Statements of Revenues, Expenses and Changes in Net Assets:

1. Operating revenues amounted to \$31,942 in FY2011 as compared to \$4,908 in FY2010 and \$24,892 in FY2009 from collection of contributions from local tourism industry partners who are BTA members for their co-sharing costs in participating at trade shows, exhibitions, product seminars and road shows alongside PVA at various key markets.
2. Operating expenses - contractual services amounted to \$11,350 in FY2011 as compared to \$7,798 in FY2010 and \$22,050 in FY2009. The increase in FY2011 is due to consultant fees paid to conduct on-the-job training of accounting personnel, including incorporation of QuickBooks 2010.
3. Operating expenses - representation and tours amounted to \$228,815 in FY2011 as compared to \$181,213 in FY2010 and \$265,580 in FY2009 due to acquiring of the second booth at both the MDF 2011 and the JATA 2011 trade-shows in Tokyo, Japan because of the increased number of co-participants from Palau and also due to exhibiting at the KOTFA 2011 in Korea that was not done in FY2010; however, costs were contained within budgeted allocations.
4. Operating expenses - personnel and fringe benefits amounted to \$224,007 in FY2011 as compared to \$199,176 in FY2010 and \$206,139 in FY2009 due to filling in vacancies in the Marketing & Research Department as well as the allocation of PVA's 5% share of the Health Care Fund for employees.
5. Operating expenses - tourism development, public awareness, public relations and training amounted to \$92,078 in FY2011 as compared to \$94,537 in FY2010 and \$118,108 in FY2009; however, costs were contained within budgeted allocations.

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

6. Operating expenses - registration, booth rental and membership fees amounted to \$1,185 in FY2011 as compared to \$8,624 in FY2010 and \$8,485 in FY2009 due to not renewing PVA's membership cost of \$7,785 in the Pacific Asia Travel Association for FY2011.
7. Operating expenses - depreciation amounted to \$14,575 in FY2011 as compared to \$16,694 in FY2010 and \$17,175 in FY2009 due to fully depreciated fixed assets.
8. Operating expenses - communications and postage and supplies and printing amounted to \$21,482 in FY2011 as compared to \$16,997 in FY2010 and \$17,848 in FY2009; however, costs were contained within budgeted allocations.
9. Operating expenses - travel and transportation amounted to 7,852 in FY2011 as compared to \$5,892 in FY2010 and \$5,180 in FY2009 due to the continual increase of fuel costs.
10. Operating expenses - promotional materials amounted to \$3,901 in FY2011 as compared to \$0- in FY2010 due to itemizing expenditures in FY2011.
11. Operating expenses - other marketing amounted to \$3,750 in FY2011 compared to \$22,647 in FY2010 and \$27,193 in FY2009. Other marketing costs of \$9,368 for a publication/media promo are included under tourism development, public awareness, public relations.
12. Operating expenses - other amounted to \$30,451 in FY2011 as compared to \$43,927 in FY2010 and \$63,155 in FY2009 due to staying within the FY2011 budget appropriation that reflected a 3.6% decrease compared to the FY2010 budget appropriation.
13. Nonoperating revenues amounted to \$605,000 in FY2011 as compared to \$627,500 in FY2010 and \$725,000 in FY2009 due to a reduction of PVA's budget appropriation from ROP.

Concluding Summary

In FY2011 and FY2010, PVA continued adherence to finance and property management policies and procedures with the intention to improve operational and financial compliance and controls for PVA's operations. Ultimate consistency in maintaining monthly reconciliations and recordkeeping continues to be PVA's desired accomplishment for its Accounting Department. PVA hopes to improve on compliance and adherence to finance and property management policies and procedures.

Economic Outlook

Having endured its share of challenges due to the continued global economic crisis worldwide, Palau visitor arrivals were 109,057 (27.4% growth) for FY2011 as compared to 85,593 for FY2010 and 71,887 in FY2009. This can be attributed to positive growth in the Taiwan (69.8%), Japan (28.9%), Korea (3.6%), North America (1.4%), and European (3.7%) markets and seeing positive growth in the China (134.3%) and Hong Kong (42.2%) markets. Additionally, PVA continues to maximize its marketing and promotional efforts with Continental Airlines, Japan Airlines and Delta Air Lines, with the possibility of including Asiana Airlines and Korean Air. PVA continues to strengthen its marketing and promotional partnership with the BTA for the short-haul markets such as Japan, Korea, the 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, 2010 is set forth in the report on the audit of PVA's financial statements which is dated February 21, 2011. That Discussion and Analysis explains the major factors impacting the 2010 financial statements. If you have questions about the 2010 or 2009 reports, or need additional information, please contact the Managing Director at the Palau Visitors Authority, P.O. Box 256, Koror, Republic of Palau 96940, at (680) 488-1930/2793 or e-mail ddeleon.pva@visit-palau.com or fax (680) 488-1453.

PALAU VISITORS AUTHORITY

Statements of Net Assets
September 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash	\$ <u>126,740</u>	\$ <u>40,198</u>
Receivables:		
Republic of Palau	109,782	180,253
Employee	<u>2,867</u>	<u>4,512</u>
	112,649	184,765
Less allowance for doubtful accounts	<u>(1,482)</u>	<u>(3,041)</u>
Total receivables, net	<u>111,167</u>	<u>181,724</u>
Prepaid expenses	<u>6,945</u>	<u>30</u>
Total current assets	244,852	221,952
Fixed assets, net	<u>74,813</u>	<u>84,078</u>
	<u>\$ 319,665</u>	<u>\$ 306,030</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Republic of Palau	\$ 24,410	\$ 24,410
Accounts payable	7,724	9,056
Accrued expenses	<u>42,113</u>	<u>24,642</u>
Total current liabilities	<u>74,247</u>	<u>58,108</u>
Commitment and contingency		
Net assets:		
Invested in capital assets	74,813	84,078
Unrestricted	<u>170,605</u>	<u>163,844</u>
Total net assets	<u>245,418</u>	<u>247,922</u>
	<u>\$ 319,665</u>	<u>\$ 306,030</u>

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Miscellaneous	\$ <u>31,942</u>	\$ <u>4,908</u>
Total operating revenues	<u>31,942</u>	<u>4,908</u>
Operating expenses:		
Representation and tours	228,815	181,213
Personnel and fringe benefits	224,007	199,176
Tourism development, public awareness, public relations and training	92,078	94,537
Depreciation	14,575	16,694
Communication and postage	12,663	10,085
Contractual services	11,350	7,798
Supplies and printing	8,819	6,912
Travel and transportation	7,852	5,892
Promotional materials	3,901	-
Other marketing	3,750	22,647
Registration, booth rental and membership fees	1,185	8,624
Trade magazine coverage	-	3,651
Bad debts	-	9,760
Other	<u>30,451</u>	<u>43,927</u>
Total operating expenses	<u>639,446</u>	<u>610,916</u>
Loss from operations	(607,504)	(606,008)
Nonoperating revenues:		
Republic of Palau appropriation	<u>605,000</u>	<u>627,500</u>
Change in net assets	(2,504)	21,492
Net assets at beginning of year	<u>247,922</u>	<u>226,430</u>
Net assets at end of year	\$ <u>245,418</u>	\$ <u>247,922</u>

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY
 Statements of Cash Flows
 Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 32,028	\$ 4,908
Cash payments to suppliers for goods and services	(409,111)	(410,847)
Cash payments to employees for services	<u>(206,536)</u>	<u>(200,987)</u>
Net cash used for operating activities	<u>(583,619)</u>	<u>(606,926)</u>
Cash flows from noncapital financing activities:		
Republic of Palau appropriations	<u>675,471</u>	<u>576,147</u>
Net cash provided by noncapital financing activities	<u>675,471</u>	<u>576,147</u>
Cash flows from capital and related financing activities:		
Fixed asset acquisitions	<u>(5,310)</u>	<u>(3,972)</u>
Net cash used for capital and related financing activities	<u>(5,310)</u>	<u>(3,972)</u>
Net increase (decrease) in cash	86,542	(34,751)
Cash at beginning of year	<u>40,198</u>	<u>74,949</u>
Cash at end of year	\$ <u><u>126,740</u></u>	\$ <u><u>40,198</u></u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (607,504)	\$ (606,008)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	14,575	16,694
Bad debts	-	9,760
(Increase) decrease in assets:		
Employee receivables	86	(15,498)
Prepaid expenses	(6,915)	706
Increase (decrease) in liabilities:		
Accounts payable	(1,332)	(10,769)
Accrued expenses	<u>17,471</u>	<u>(1,811)</u>
Net cash used for operating activities	\$ <u><u>(583,619)</u></u>	\$ <u><u>(606,926)</u></u>

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2011 and 2010

(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.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010, cash was \$126,740 and \$40,198, respectively, and the corresponding bank balances were \$133,765 and \$50,419, respectively. Of these amounts, \$128,012 and \$45,161, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance and were FDIC insured. PVA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Cash deposits were not in excess of FDIC coverage at September 30, 2011 and 2010.

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.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010 was \$25,920 and \$21,498, 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 \$23,709, \$21,401 and \$21,844 to the Fund during the fiscal years 2011, 2010 and 2009, 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, 2009 actuarial valuation determined the unfunded pension benefit obligation as follows:

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued

Active participants	\$ 56,060,970
Participants in pay status	47,666,805
Participants with vested deferred benefits	<u>1,779,610</u>
Total pension benefit obligation	105,507,385
Net assets available for benefits, at market value	<u>41,254,319</u>
Unfunded benefit obligation	\$ <u>64,253,066</u>

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

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, 2011 and 2010, 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.

New Accounting Standards

During fiscal year 2011, PVA implemented the following pronouncements:

- GASB 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.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PVA.

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

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

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

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Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. 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, 2011 and 2010, are summarized below:

	Estimated Useful Lives	Balance at October 1, 2010	Additions	Deletions	Balance at September 30, 2011
Furniture, fixtures and equipment	1 - 10 years	\$ 201,264	\$ 5,310	\$ -	\$ 206,574
Building improvements	15 years	188,551	-	-	188,551
Vehicles	3 - 5 years	45,592	-	-	45,592
		435,407	5,310	-	440,717
Less accumulated depreciation		(351,329)	(14,575)	-	(365,904)
		<u>\$ 84,078</u>	<u>\$ (9,265)</u>	<u>\$ -</u>	<u>\$ 74,813</u>
		Balance at October 1, 2009	Additions	Deletions	Balance at September 30, 2010
Furniture, fixtures and equipment	1 - 10 years	\$ 198,292	\$ 2,972	\$ -	\$ 201,264
Building improvements	15 years	187,551	1,000	-	188,551
Vehicles	3 - 5 years	45,592	-	-	45,592
		431,435	3,972	-	435,407
Less accumulated depreciation		(334,635)	(16,694)	-	(351,329)
		<u>\$ 96,800</u>	<u>\$ (12,722)</u>	<u>\$ -</u>	<u>\$ 84,078</u>

(4) Commitment and Contingency

Republic of Palau Public Laws (RPPL) 8-18 and RPPL 8-8 appropriated \$605,000 and \$627,500 to PVA for the years ended September 30, 2011 and 2010, respectively, unobligated amounts of which lapse at year end. PVA has recorded liabilities to ROP of \$24,410 as of September 30, 2011 and 2010 for lapsed funding related to its appropriation for the year ended September 30, 2007.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2011 and 2010

(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.