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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Visitors Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Palau Visitors Authority (PVA), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2014 and 2013, 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 Palau Visitors Authority as of September 30, 2014 and 2013, 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 9 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 PVA'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 May 18, 2015 on our consideration of PVA'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 PVA's internal control over financial reporting and compliance.

Deloitte & Touche LLC

May 18, 2015

Palau
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Management's Discussion and Analysis
Year Ended September 30, 2014

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 fisheries and agriculture.

To achieve this, PVA undertakes the role of the country's tourism authority whose position is to be a visionary and present a strong image of Palau as a special destination appealing to discerning, high spending and environmentally conscientious clientele. To this end, PVA invests approximately 50% 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 managed by a seven-member Board of Directors appointed by the President, with the advice and consent of the Senate, to serve two-year terms and whose 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 interest 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 and Research, 2) Community Services and Support Services, and 3) Accounting. There are currently nine full-time, one part-time and four contracted staff with one full-time vacancy remaining to be filled.

The customers of PVA are visitors to ROP, tourism industry operators, National and State governments, the public and private sectors 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:

1. Ensure the development of tourism strategies to be adopted by the National Government;

2. Turn PVA into a pure marketing body of ROP that is to be recognized internally and externally as one of the most aspirational destinations behind the new branding “Pristine Paradise. Palau.”;

3. Seek flexibility and potential extra funding by pursuing a legal entity change from semi-government to a nonprofit organization;

4. Train and develop PVA employees to their fullest potential so that PVA will be a self-sufficient and sustainable organization;

5. Define the role of PVA and the newly developed Board of Trustees in order to deliver tangible and unique contributions; and

6. Continue to improve the recording and accountability of budgetary and financial transactions to ensure full compliance with laws and regulations and generally accepted accounting standards.

Fiscal Year Objectives:

<u>Marketing and Research</u>

1. Provide timely visitor statistics with sound analysis:

    a. Total visitors increased by 34% to 140,784 compared to 2013. The single biggest reason is due to the influx of visitors from China which increased four times more than the prior year. Traditional markets had mixed results; specifically, Japan, Taiwan (ROC) and the United States of America (the USA) increased by 7%, 18% and 9%, respectively, while Korea and Europe totals decreased by 13% and 3%, respectively.

    b. Visitor Arrivals Statistical Reports were submitted on the 10^{th} of each succeeding month. We are currently transitioning to fully utilize the Optical Marker Reader for analysis purposes. Data validation confirmed that there is an accuracy issue related to immigration data due to the processing and readability of handwritten forms.

2. Re-Branding of Palau; Replace Rainbow’s End under new branding project:

    We qualified and launched the tag-line, “Pristine Paradise. Palau.” on the 20th anniversary of ROP’s Independence Day along with conducting market assessment, consumer targeting, competitive assessment and a large scale consumer research.

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Research, Continued

3. Exit Survey:

   In cooperation with the South Pacific Tourism Organization, PVA co-lead the Airport Exit Survey for a period of five months (from May 12, 2014 to October 3, 2014) covering 2,134 visitors. The final report was provided to PVA and was shared with leaders and key stakeholders in the industry. PVA further provided its own analysis utilizing the raw data in order to develop tourism and marketing strategies.

4. Pacific Islands Forum participation:

   PVA played major roles in the development of new collateral materials and in meeting and greeting VIP guests at the airport.

5. Trade Shows:

   PVA participated in eleven tradeshows and solicited partnership with Palau's tourism industry partners in hosting/co-sponsoring to ensure a better return on investment while maximizing the exposure at each show by grouping as one destination. Based on previous strategic choices and funding limitations, PVA invested markets skewed to Japan, Singapore, Taiwan, Hong Kong, Korea and Guam versus long haul destinations in fiscal years 2014 and 2015. We have also participated in the Pacific Asia Tourism Association (PATA) conferences internationally in Cambodia and locally in Palau and Guam.

6. Familiarization (FAM) Tours:

   FAM Tours were also organized by PVA including overseas representation by soliciting partnership and sponsorship of our key industry stakeholders in order for the media to get maximum exposure and travel agents to learn about destination knowledge. Mainly, FAM trips were conducted to Japan, Taiwan, Korea, the USA and Europe (mainly Germany). We have received many requests to diversify attractions and products of Palau to place more emphasis on nature, culture and non-diving activities such as kayaking, bird-watching and eco-tourism tours while continuing to maintain Palau's core attraction of diving and marine activities.

7. Market/promote Palau as the "World's First Shark Sanctuary" and the inscription of Palau's Rock Islands Southern Lagoon into World Heritage List of the United Nations Educational, Scientific and Cultural Organization.

8. Tourism Master Plan and the Tri-Org:

   Continue cooperative efforts with the Belau Tourism Association and the Palau Chamber of Commerce to recognize the increasing number of visitor arrivals to Palau and to achieve the objective identified in the "Tourism Action Plan" which is to market and promote Palau as a choice boutique destination that targets quality and not quantity visitors while collaboratively working together to identify the "branding" for Palau.

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Community Services and Support Services

1. Night markets have been renewed as a place for locals and tourists to find and enjoy Palauan traditions and entertainment. Specifically; the “Palauan Night Market” serves as an “incubator” by providing an opportunity to local small businesses to display and sell authentic “Made in Palau” products (arts, handicrafts, jewelries, etc.) and local cuisine. “International Night” serves as a public outlet for established businesses to showcase Palau’s “melting pot” of international cuisines, dances, music and souvenirs for the encouragement of positive social interaction between visitors and the community and to provide opportunity for the businesses to showcase and promote their products and services so as to entice potential customers to experience their hospitality and patronage.

2. Community based programs:

   Enhancement of PVA’s annual activities, programs and projects (namely Welcome All Visitors Enthusiastically, Tourism Awareness Week and Green Fair/Earth Day) to promote community awareness towards a sustainable visitor economy for Palau and to increase awareness of the benefits of the tourism industry.

3. State tourism development:

   Through State representative meetings, we work with each State to develop its own unique programs. Also, we provide training opportunities for State governments and private sectors to develop human resources in the areas of customer service, tour guiding, brochure development and grant writing.

4. Island-wide beautification of Palau through the “I Love Palau, I Keep It Clean” campaign that encourages cleanliness of hamlets, States, attraction sites and the Rock islands for the continuity of Palau’s natural and pristine environment.

5. Aggressive promotion of “AliiHost” customer service training to encourage State representatives and tourism partners in the public and private sectors to utilize this opportunity which will enhance customer service skills.

6. Improve partnerships with each State for development of interpretive signs to utilize at attraction sites and implement the “Attraction/Sites Inventory” as a marketing/promotional tool for diversification of tourist activities in the various states.

7. Encourage compliance with PVA and ROP procurement policies to improve accounting procedures to warrant an unmodified audit opinion and no audit findings for PVA’s audits.

Funding

PVA receives its annual operational funding from the Unified Budget appropriation of the Olbiil Era Kelulau. Its total budget for fiscal years 2014, 2013 and 2012 was $645,000, $635,000 and $625,000, respectively. PVA’s budget is allocated based on its main functions of authority as follows: 57.0% for marketing and research, 28.3% for administration and 14.7% for community services and related program developments.

Overview of Financial Statements

Statements of Net Position:

	2014	2013	2012
Current assets	$ 239,270	$ 239,759	$ 211,906
Capital assets	62,176	67,936	64,865
Total assets	301,446	307,695	276,771
Current liabilities	115,119	69,559	64,768
Net position:			
Invested in capital assets	62,176	67,936	64,865
Unrestricted	124,151	170,200	147,138
Total net position	$ 186,327	$ 238,136	$ 212,003

Statements of Revenues, Expenses and Changes in Net Position:

	2014	2013	2012
Operating revenues	$ 108,228	$ 58,500	$ 37,475
Operating expenses	805,037	667,367	695,890
Loss from operations	(696,809)	(608,867)	(658,415)
Nonoperating revenues	645,000	635,000	625,000
Change in net position	(51,809)	26,133	(33,415)
Net position at beginning of year	238,136	212,003	245,418
Net position at end of year	$ 186,327	$ 238,136	$ 212,003

Statements of Cash Flows:

	2014	2013	2012
Cash flows from operating activities	$ (659,497)	$ (595,035)	$ (659,922)
Cash flows from noncapital financing activities	754,357	528,821	729,261
Cash flows from capital and related financing activities	(10,781)	(16,814)	(4,300)
Net increase (decrease) in cash	84,079	(83,028)	65,039
Cash at beginning of year	108,751	191,779	126,740
Cash at end of year	$ 192,830	$ 108,751	$ 191,779

Financial Highlights:

1. ROP receivables amounted to $2,343 in fiscal year 2014 compared to $111,700 in fiscal year 2013 and $5,521 in fiscal year 2012. The decrease was due to timely funding.

2. Employee receivables amounted to $26,838 in fiscal year 2014 compared to $10,700 in fiscal year 2013 and $8,915 in fiscal year 2012. The increase is attributed to trip reports and travel expense reports that are yet to be submitted and reconciled.

3. The allowance for doubtful accounts amounted to $134 in fiscal years 2014 and 2013 compared to $1,239 in fiscal year 2012 due to improved procedures for timely employee payroll deductions.

4. Accounts payable amounted to $11,126 in fiscal year 2014 compared to $14,601 in fiscal year 2013 and $3,400 in fiscal year 2012. The decrease was due to timely disbursement of monthly budgetary allotments from ROP.

Overview of Financial Statements

Financial Highlights, Continued:

5. At September 30, 2014, 2013 and 2012, PVA had invested in capital assets of $62,176, $67,936 and $64,865, respectively, net of accumulated depreciation where applicable, including building, building improvements, furniture, fixtures and equipment and vehicles. The decrease is due to improved reconciliation and posting of fixed assets depreciation. See note 3 to the financial statements for more detailed information on PVA's fixed assets.

6. Total net position amounted to $186,327 in fiscal year 2014 compared to $238,136 in fiscal year 2013 and $212,003 in fiscal year 2012 which is primarily attributed to a decrease in change in net position.

7. Operating revenues amounted to $108,228 in fiscal year 2014 compared to $58,500 in fiscal year 2013 and $37,475 in fiscal year 2012 from collection of contributions from local tourism industry partners (who are BTA members) and co-sharing costs from participating at trade shows, exhibitions, product seminars and road shows alongside PVA at various key markets.

8. Operating expenses - contractual services amounted to $40,930 in fiscal year 2014 compared to $15,800 in fiscal year 2013 and $15,000 in fiscal year 2012 due to the addition of a Legal Counsel.

9. Operating expenses - representation and tours amounted to $233,887 in fiscal year 2014 compared to $205,750 in fiscal year 2013 and $269,623 in fiscal year 2012. The increase is attributed to more participation in trade shows especially in the European markets due to an increase in staff.

10. Operating expenses - personnel and fringe benefits amounted to $222,765 in fiscal year 2014 compared to $210,550 in fiscal year 2013 and $223,575 in fiscal year 2012. The increase is primarily due to vacant positions being filled.

11. Operating expenses - tourism development, public awareness, public relations and training amounted to $132,790 in fiscal year 2014 compared to $132,894 in fiscal year 2013 and $94,431 in fiscal year 2012. These programs include exploring new diversified marketing activities (cruise ships) and response to post-quake disaster relief efforts in Japan, sending eight dancers to the Iwaki City Expo.

12. Operating expenses - registration, booth rental and membership fees amounted to $9,749 in fiscal year 2014 compared to $8,300 in fiscal year 2013 and $8,350 in fiscal year 2012, due to PVA's membership renewal with PATA.

13. Operating expenses - depreciation amounted to $16,541 in fiscal year 2014 compared to $13,743 in fiscal year 2013 and $14,248 in fiscal year 2012. The increase in depreciation in 2014 is attributed to 2013 additions of computers and automobiles.

14. Operating expenses - communications and postage and supplies and printing amounted to $30,400 in fiscal year 2014 compared to $25,764 in fiscal year 2013 and $20,151 in fiscal year 2012 due to an increased amount of communication material.

Overview of Financial Statements

Financial Highlights, Continued:

15. Operating expenses - travel and transportation amounted to $7,243 in fiscal year 2014 compared to $7,711 in fiscal year 2013 and $11,323 in fiscal year 2012. Savings were driven by a decrease in staff traveling.

16. Operating expenses - promotional materials amounted to $13,100 in fiscal year 2014 compared to $5,458 in fiscal year 2013 and $3,880 in fiscal year 2012; however, costs were contained within budgeted allocations.

17. Operating expenses - other amounted to $79,920 in fiscal year 2014 compared to $25,016 in fiscal year 2013 and $21,254 in fiscal year 2012. The increase in 2014 pertains to the Airport Luggage Cart Project and meeting expenses related to PATA.

18. Nonoperating revenues amounted to $645,000 for fiscal year 2014 compared to $635,000 for fiscal year 2013 and $625,000 for fiscal year 2012.

Economic Outlook

Fiscal year 2014 marked a historical record high number of visitors at 140,784 or a 34% increase versus 2013. This significant increase was attributed to the growth of visitors from China especially in the fourth quarter. Traditional key markets had mixed results; specifically, Japan, Taiwan (ROC) and the USA increased by 7%, 18% and 9%, respectively, while Korea and Europe totals decreased by 13% and 3%, respectively. This trend brought a total market mix change which led visitors from China to be the number one source country at 28% of the total up from 9% in 2013.

PVA's mission statement defines our role, "We are committed to promote our heritage and the unique attractions of Palau through sustainable tourism development and the encouragement of responsible practices." With this, we will continue to deliver our commitment and priorities by a) promoting Palau under the new branding campaign, "Pristine Paradise. Palau", b) diversifying tourism products especially the development of Babeldaob with collaboration of each State, and c) developing community programs to ensure the benefits of the tourism industry is returned to the Palauan people.

The Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in PVA's report on the audit of financial statements, which is dated May 15, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

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. If you have questions about this report 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 nanaesingeo.pva@visit-palau.com or fax (680) 488-1453.

PALAU VISITORS AUTHORITY

Statements of Net Position
September 30, 2014 and 2013

ASSETS	2014	2013
Current assets:		
Cash	$ 192,830	$ 108,751
Receivables:		
Employee and other	26,838	10,700
Republic of Palau	2,343	111,700
	29,181	122,400
Less allowance for doubtful accounts	(134)	(134)
Total receivables, net	29,047	122,266
Prepaid expenses	17,393	8,742
Total current assets	239,270	239,759
Fixed assets, net	62,176	67,936
	$ 301,446	$ 307,695
LIABILITIES AND NET POSITION		
Current liabilities:		
Republic of Palau	$ 24,410	$ 24,410
Accounts payable	11,126	14,601
Unearned revenue	47,975	-
Accrued expenses	31,608	30,548
Total current liabilities	115,119	69,559
Commitment and contingency		
Net position:		
Invested in capital assets	62,176	67,936
Unrestricted	124,151	170,200
Total net position	186,327	238,136
	$ 301,446	$ 307,695

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Miscellaneous	$ 108,228	$ 58,500
Operating expenses:		
Representation and tours	233,887	205,750
Personnel and fringe benefits	222,765	210,550
Tourism development, public awareness, public relations and training	132,790	132,894
Contractual services	40,830	15,800
Communication and postage	19,449	16,302
Utilities	17,812	16,381
Depreciation	16,541	13,743
Promotional materials	13,100	5,458
Supplies and printing	10,951	9,462
Registration, booth rental and membership fees	9,749	8,300
Travel and transportation	7,243	7,711
Other	79,920	25,016
Total operating expenses	805,037	667,367
Loss from operations	(696,809)	(608,867)
Nonoperating revenues:		
Republic of Palau appropriation	645,000	635,000
Change in net position	(51,809)	26,133
Net position at beginning of year	238,136	212,003
Net position at end of year	$ 186,327	$ 238,136

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	$ 92,090	$ 55,610
Cash payments to suppliers for goods and services	(529,882)	(433,685)
Cash payments to employees for services	(221,705)	(216,960)
Net cash used for operating activities	(659,497)	(595,035)
Cash flows from noncapital financing activities:		
Republic of Palau appropriations	754,357	528,821
Net cash provided by noncapital financing activities	754,357	528,821
Cash flows from capital and related financing activities:		
Fixed asset acquisitions	(10,781)	(16,814)
Net cash used for capital and related financing activities	(10,781)	(16,814)
Net increase (decrease) in cash	84,079	(83,028)
Cash at beginning of year	108,751	191,779
Cash at end of year	$ 192,830	$ 108,751
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	$ (696,809)	$ (608,867)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	16,541	13,743
(Increase) decrease in assets:		
Employee and other receivables	(16,138)	(2,890)
Prepaid expenses	(8,651)	(1,812)
Increase (decrease) in liabilities:		
Accounts payable	(3,475)	11,201
Unearned revenue	47,975	-
Accrued expenses	1,060	(6,410)
Net cash used for operating activities	$ (659,497)	$ (595,035)

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 ROP 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. PVA 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.

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

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 position and cash flows, cash is defined as cash on hand and cash held in demand or savings accounts. As of September 30, 2014 and 2013, cash was $192,830 and $108,751, respectively, and the corresponding bank balances were $217,227 and $126,479, respectively. Of these amounts, $216,180 and $125,747, 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, 2014 and 2013.

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 ROP. 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 and bad debts are written-off against the allowance based on the specific identification method.

(2) Summary of Significant Accounting Policies, Continued

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.

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, 2014 and 2013 was $22,296 and $16,030, 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 ROP. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Palau 96940.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents of the ROP, ROP State Governments and ROP agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are of 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 No. 2-26 is the authority under which benefit provisions are established. On April 30, 2013, RPPL 9-2 was enacted which eliminates the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty. Member contribution rates are established by RPPL No. 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. PVA contributed $20,530, $22,152 and $23,212 to the Fund during the fiscal years 2014, 2013 and 2012, respectively, which were equal to the required contributions for each year.

Under the provisions of RPPL No. 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 the years ended September 30, 2014 and 2013 was covered by the Fund's pension plan.

(2) Summary of Significant Accounting Policies, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued

The Fund utilizes the actuarial cost method termed "level aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 7.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

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

The Fund's October 1, 2013 actuarial valuation determined the unfunded pension benefit obligation as follows:

Active participants	$ 82,099,216
Participants in pay status	61,865,857
Participants with vested deferred benefits	3,323,468
Total pension benefit obligation	147,288,541
Net assets available for benefits, at market value	34,261,206
Unfunded benefit obligation	$ 113,027,335

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. The amount of the unfunded liability that PVA may be liable for has not been determined and is not included as a liability in the accompanying statements of net position.

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 Position

PVA's net position is classified as follows:

- Invested in capital assets: capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

- Restricted: net position 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, 2014 and 2013, PVA does not have restricted net position.

- Unrestricted: net position that is not subject to externally imposed stipulations. Unrestricted net position 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 the year ended September 30, 2014, PVA implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 67, *Financial Reporting for Pension Plans, which* revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, which* revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Statement 68 will require PVA to recognize a net pension liability based on the percentage of the actuarial present value of projected benefit payments allocated to PVA by the Palau Civil Service Trust Fund (the Fund). The Fund has not communicated amounts to PVA which may be material and will be recorded on October 1, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of PVA.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of PVA.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, which* addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. 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, 2014 and 2013, are summarized below:

	Estimated Useful Lives	Balance at October 1, 2013	Additions	Deletions	Balance at September 30, 2014
Building	20 years	$ 143,122	$ -	$ -	$ 143,122
Furniture, fixtures and equipment	1 - 10 years	120,499	5,341	(1,744)	124,096
Building improvements	15 years	45,429	5,440	-	50,869
Vehicles	3 - 5 years	4,200	-	-	4,200
		313,250	10,781	(1,744)	322,287
Less accumulated depreciation		(245,314)	(16,541)	1,744	(260,111)
		$ 67,936	$ (5,760)	$ -	$ 62,176

	Estimated Useful Lives	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013
Building	20 years	$ 143,122	$ -	$ -	$ 143,122
Furniture, fixtures and equipment	1 - 10 years	117,460	12,614	(9,575)	120,499
Building improvements	15 years	45,429	-	-	45,429
Vehicles	3 - 5 years	45,592	4,200	(45,592)	4,200
		351,603	16,814	(55,167)	313,250
Less accumulated depreciation		(286,738)	(13,743)	55,167	(245,314)
		$ 64,865	$ 3,071	$ -	$ 67,936

(4) Commitment and Contingency

RPPL 9-15 and RPPL 9-5 appropriated $645,000 and $635,000 to PVA for the years ended September 30, 2014 and 2013, respectively, unobligated amounts of which lapse at year end. PVA has recorded liabilities to ROP of $24,410 as of September 30, 2014 and 2013 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.