

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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, 2013 and 2012, 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, 2013 and 2012, 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 8 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 15, 2014 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 15, 2014



Palau

Visitors Authority

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Management's Discussion and Analysis Year Ended September 30, 2013

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 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 three contracted staff on board with two full-time vacancies 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:

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 and Russia.

Fiscal Year Objectives:

Marketing and Research

1. Aggressive marketing and promotion initiatives for the encouragement of continual growth in visitor arrivals by at least 3% (120,000+ visitors) compared to 118,754 visitors in 2012.
2. Improve the process of inputting arrival statistics data to timely generate month-end "Visitor Arrivals Statistical Reports" for distribution by the 10th of each succeeding month and pursue the procurement of Optical Mark Reader scanners for enhanced data inputting and timely generation of various statistical reports.
3. Continue diversification of market shares by attracting quality (low-impact and high-spending) visitors from key markets such as Japan, Taiwan, Korea, the United States of America (the USA) and Europe (mainly Germany, Italy, France and the United Kingdom (the UK)).
4. Increase marketing and promotional initiatives for the Russian market, which is a high potential new emerging market for Palau.
5. Increase marketing and promotional initiatives for short-haul markets such as Australia, Guam, Japan, Korea, Philippines and Taiwan in anticipation of a quick yield on return of investments, while maintaining a visible presence in long-haul markets such as the USA and Europe.
6. Production of new marketing and promotional collaterals (both print and electronic forms) with updated information and images to meet the current tourism trend for utilization at planned international trade-shows, exhibitions and sale calls as well as for the use of the public and private sectors.
7. Solicit partnership with Palau's tourism industry partners in hosting/co-sponsoring Familiarization Tours by the media for exposure and travel agents for destination knowledge from the key markets of Japan, Taiwan, Korea, the USA, Europe (mainly Germany, France, Italy and the UK) and potentially Guam. The purpose would be to diversify tourism attractions/products of Palau and place more emphasis on nature, culture and non-diving activities such as kayaking, bird-watching, eco-tourism tours, etc., while continuing to maintain Palau's core attraction of diving and marine activities.
8. Market/promote Palau as the "World's First Shark Sanctuary" and the inscription of Palau's Rock Islands Southern Lagoon into the World Heritage List of the United Nations Educational Scientific and Cultural Organization (UNESCO).

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Research, Continued

9. Continue cooperative efforts with the Belau Tourism Association (BTA) and the Palau Chamber of Commerce to achieve an objective identified by the “Tourism Action Plan” 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.

Community Services and Support Services

1. Enhancement of PVA’s annual activities, programs and projects (namely WAVE, TAW and Green Fair/Earth Day) to promote community awareness towards a sustainable visitor economy for Palau.
2. Enhance the continual success of the “Palauan Night Market” that serves as an “incubator” by providing an opportunity for local small businesses to display and sell authentic “Made in Palau” products (arts, handicrafts, jewelries, etc.) and local cuisine for the enjoyment of visitors and locals alike.
3. Promote the success of “International Night” that serves as a public outlet for established businesses to showcase Palau’s “melting pot” of international cuisine, dances, music and souvenirs for the encouragement of positive social interactions between visitors and the community and to provide an opportunity for businesses to showcase and promote their products and services to entice potential customers to experience their hospitality and patronage.
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. 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.
7. 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 the diversification of tourist activities in the various States.
8. 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 FY2013, FY2012 and FY2011 was \$635,000, \$625,000 and \$605,000, respectively. PVA’s budget is allocated based on its main functions of authority as follows: 48.4% for Marketing and Research, 26.6% for Administration, 18.9% for Community Services and related program developments and 6.1% for Board of Directors.

Overview of Financial Statements

PVA's investment in capital assets for FY2013 was \$67,936 as compared to \$64,865 in FY2012 and \$74,813 in FY2011. This was due to assets being fully depreciated and the purchase of new assets in FY2013.

Statements of Net Position:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 239,759	\$ 211,906	\$ 244,852
Capital assets	<u>67,936</u>	<u>64,865</u>	<u>74,813</u>
Total assets	<u>307,695</u>	<u>276,771</u>	<u>319,665</u>
Current liabilities	<u>69,559</u>	<u>64,768</u>	<u>74,247</u>
Net position:			
Invested in capital assets	67,936	64,865	74,813
Unrestricted	<u>170,200</u>	<u>147,138</u>	<u>170,605</u>
Total net position	\$ <u>238,136</u>	\$ <u>212,003</u>	\$ <u>245,418</u>

Statements of Revenues, Expenses and Changes in Net Position:

Operating revenues	\$ 58,500	\$ 37,475	\$ 31,942
Operating expenses	<u>667,367</u>	<u>695,890</u>	<u>639,446</u>
Loss from operations	(608,867)	(658,415)	(607,504)
Nonoperating revenues	<u>635,000</u>	<u>625,000</u>	<u>605,000</u>
Change in net position	26,133	(33,415)	(2,504)
Net position at beginning of year	<u>212,003</u>	<u>245,418</u>	<u>247,922</u>
Net position at end of year	\$ <u>238,136</u>	\$ <u>212,003</u>	\$ <u>245,418</u>

Statements of Cash Flows:

Cash flows from operating activities	\$ (595,035)	\$ (659,922)	\$ (583,619)
Cash flows from noncapital financing activities	528,821	729,261	675,471
Cash flows from capital and related financing activities	<u>(16,814)</u>	<u>(4,300)</u>	<u>(5,310)</u>
Net (decrease) increase in cash	(83,028)	65,039	86,542
Cash at beginning of year	<u>191,779</u>	<u>126,740</u>	<u>40,198</u>
Cash at end of year	\$ <u>108,751</u>	\$ <u>191,779</u>	\$ <u>126,740</u>

Financial Highlights:

1. ROP receivables amounted to \$111,700 in FY2013 as compared to \$5,521 in FY2012. This was due to delayed funding.
2. Employee receivables amounted to \$10,700 in FY2013 as compared to \$8,915 in FY2012. 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 FY2013 as compared to \$1,239 in FY2012 due to improved procedures for timely employee payroll deductions.
4. Accounts payable amounted to \$14,601 in FY2013 as compared to \$3,400 in FY2012 due to delayed disbursement of monthly budgetary allotments from ROP.

Overview of Financial Statements, Continued

Financial Highlights, Continued:

5. At September 30, 2013, 2012, and 2011, PVA had invested in capital assets of \$67,936, \$64,865 and \$74,813, 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 \$238,136 in FY2013 as compared to \$212,003 in FY2012 which is primarily attributed to an increase in change in net position.
7. Operating revenues amounted to \$58,500 in FY2013 as compared to \$37,475 in FY2012 and \$31,942 in FY2011 from collection of contributions from local tourism industry partners (who are BTA members) and from their 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 \$15,800 in FY2013 as compared to \$15,000 in FY2012 and \$11,350 in FY2011 due to the addition of a Legal Counsel.
9. Operating expenses - representation and tours amounted to \$205,750 in FY2013 as compared to \$269,623 in FY2012 and \$228,815 in FY2011. The decrease is attributed to less participation in trade shows especially in the European markets due to a shortage of staff.
10. Operating expenses - personnel and fringe benefits amounted to \$210,550 in FY2013 as compared to \$223,575 in FY2012 and \$224,007 in FY2011. The decrease is primarily due to vacant positions.
11. Operating expenses - tourism development, public awareness, public relations and training amounted to \$132,894 in FY2013 as compared to \$94,431 in FY2012 and \$92,078 in FY2011. These programs include exploring new diversified marketing activities (a la 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 \$8,300 in FY2013 as compared to \$8,350 in FY2012 and \$1,185 in FY2011, mainly due to PVA's membership renewal with the Pacific Asia Travel Association.
13. Operating expenses - depreciation amounted to \$13,743 in FY2013 as compared to \$14,248 in FY2012 and \$14,575 in FY2011 due to fully depreciated fixed assets.
14. Operating expenses - communications and postage and supplies and printing amounted to \$25,764 in FY2013 as compared to \$20,151 in FY2012 and \$21,482 in FY2011 due to an increased amount of communication material.
15. Operating expenses - travel and transportation amounted to \$7,711 in FY2013 as compared to \$11,323 in FY2012 and \$7,852 in FY2011. Savings were mainly driven by a decrease in staff.
16. Operating expenses - promotional materials amounted to \$5,458 in FY2013 as compared to \$3,880 in FY2012 and \$3,901 in FY2011; however, costs were contained within budgeted allocations.

Overview of Financial Statements, Continued

Financial Highlights, Continued:

17. Operating expenses - other amounted to \$25,016 in FY2013 as compared to \$21,254 in FY2012 and \$30,451 in FY2011 due to an increase in allocation of other activities in an attempt to increase new diversified segments.
18. Nonoperating revenues amounted to \$635,000 for FY2013 as compared to \$625,000 for FY2012 and \$605,000 in FY2011.

Concluding Summary

In FY2013 and FY2012, PVA continued adherence to finance and property management policies and procedures with the intention of improving 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

The year 2013 was strong for Palau as we exceeded 100,000 visitors for the third consecutive year; however, arrivals were actually lower than the record high in 2012. This is attributed to the nature of our tourists relying heavily on non-stop flight availabilities that directly affect the number of visitors. Going forward, Palau will adapt a sustainable eco-tourism platform while targeting high revenue "quality visitors" which means we must improve the overall infrastructure, increase the number of accommodations and tackle seasonality surges by diversifying our activities.

By market segments, we will continue focusing on key markets (Japan, Korea, Taiwan, North America and Europe) and tap into low hanging fruit markets (Philippines and Hong Kong) where direct flights are readily available. Also, for long-term strategic purposes, we will start exploring new markets and potential direct flight services. With UNESCO's world heritage listing, awareness of Palau has significantly improved among the general population versus just among dividing communities. Our goal is to unleash our assets, pristine beauty and nature, to further attract and provide unique and ultimate holiday experiences that go beyond the expectation.

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in PVA's report on the audit of financial statements, which is dated January 22, 2013. That Discussion and Analysis explains the major factors impacting the 2012 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, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash	\$ 108,751	\$ 191,779
Receivables:		
Republic of Palau	111,700	5,521
Employee	10,700	8,915
	122,400	14,436
Less allowance for doubtful accounts	(134)	(1,239)
Total receivables, net	122,266	13,197
Prepaid expenses	8,742	6,930
Total current assets	239,759	211,906
Fixed assets, net	67,936	64,865
	<u>\$ 307,695</u>	<u>\$ 276,771</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Republic of Palau	\$ 24,410	\$ 24,410
Accounts payable	14,601	3,400
Accrued expenses	30,548	36,958
Total current liabilities	69,559	64,768
Commitment and contingency		
Net position:		
Invested in capital assets	67,936	64,865
Unrestricted	170,200	147,138
Total net position	238,136	212,003
	<u>\$ 307,695</u>	<u>\$ 276,771</u>

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Miscellaneous	\$ 58,500	\$ 37,475
	<u>58,500</u>	<u>37,475</u>
Total operating revenues		
Operating expenses:		
Personnel and fringe benefits	210,550	223,575
Representation and tours	205,750	269,623
Tourism development, public awareness, public relations and training	132,894	94,431
Utilities	16,381	14,055
Communication and postage	16,302	13,569
Contractual services	15,800	15,000
Depreciation	13,743	14,248
Supplies and printing	9,462	6,582
Registration, booth rental and membership fees	8,300	8,350
Travel and transportation	7,711	11,323
Promotional materials	5,458	3,880
Other	25,016	21,254
	<u>667,367</u>	<u>695,890</u>
Total operating expenses		
Loss from operations	(608,867)	(658,415)
Nonoperating revenues:		
Republic of Palau appropriation	<u>635,000</u>	<u>625,000</u>
Change in net position	26,133	(33,415)
Net position at beginning of year	<u>212,003</u>	<u>245,418</u>
Net position at end of year	<u>\$ 238,136</u>	<u>\$ 212,003</u>

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY
 Statements of Cash Flows
 Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 55,610	\$ 31,184
Cash payments to suppliers for goods and services	(433,685)	(462,376)
Cash payments to employees for services	<u>(216,960)</u>	<u>(228,730)</u>
Net cash used for operating activities	<u>(595,035)</u>	<u>(659,922)</u>
Cash flows from noncapital financing activities:		
Republic of Palau appropriations	<u>528,821</u>	<u>729,261</u>
Net cash provided by noncapital financing activities	<u>528,821</u>	<u>729,261</u>
Cash flows from capital and related financing activities:		
Fixed asset acquisitions	<u>(16,814)</u>	<u>(4,300)</u>
Net cash used for capital and related financing activities	<u>(16,814)</u>	<u>(4,300)</u>
Net (decrease) increase in cash	(83,028)	65,039
Cash at beginning of year	<u>191,779</u>	<u>126,740</u>
Cash at end of year	<u>\$ 108,751</u>	<u>\$ 191,779</u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (608,867)	\$ (658,415)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	13,743	14,248
(Increase) decrease in assets:		
Employee receivables	(2,890)	(6,291)
Prepaid expenses	(1,812)	15
Increase (decrease) in liabilities:		
Accounts payable	11,201	(4,324)
Accrued expenses	<u>(6,410)</u>	<u>(5,155)</u>
Net cash used for operating activities	<u>\$ (595,035)</u>	<u>\$ (659,922)</u>

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(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. 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.

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, 2013 and 2012, cash was \$108,751 and \$191,779, respectively, and the corresponding bank balances were \$126,479 and \$200,581, respectively. Of these amounts, \$125,747 and \$200,284, 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, 2013 and 2012.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

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 based on the specific identification method.

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, 2013 and 2012 was \$16,030 and \$30,079, respectively.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

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 \$22,152, \$23,212 and \$23,709 to the Fund during the fiscal years 2013, 2012 and 2011, respectively, which were equal to the required contributions for each year.

Under the provisions of RPPL 2-26, the Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. PVA's payroll for fiscal years 2013 and 2012 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, 2011 actuarial valuation determined the unfunded pension benefit obligation as follows:

Active participants	\$ 74,716,975
Participants in pay status	62,987,516
Participants with vested deferred benefits	<u>2,323,366</u>
Total pension benefit obligation	140,027,857
Net assets available for benefits, at market value	<u>36,128,666</u>
Unfunded benefit obligation	\$ <u>103,899,191</u>

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net position 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 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.
- 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, 2013 and 2012, PVA does not have restricted net position.
- Unrestricted: net position that are 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, 2013, PVA implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PVA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of PVA.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(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 these statements on the financial statements of PVA.

In April 2013, GASB issued 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 provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of PVA.

Reclassifications

Certain 2012 balances in the accompanying financial statements have been reclassified to conform to the 2013 presentation.

(3) Fixed Assets

Fixed assets of PVA as of September 30, 2013 and 2012, are summarized below:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2013</u>
Building	20 years	\$ 143,122	\$ -	\$ -	\$ 143,122
Building improvements	15 years	45,429	-	-	45,429
Furniture, fixtures and equipment	1 - 10 years	117,460	12,614	(9,575)	120,499
Vehicles	3 - 5 years	<u>45,592</u>	<u>4,200</u>	<u>(45,592)</u>	<u>4,200</u>
		351,603	16,814	(55,167)	313,250
Less accumulated depreciation		<u>(286,738)</u>	<u>(13,743)</u>	<u>55,167</u>	<u>(245,314)</u>
		<u>\$ 64,865</u>	<u>\$ 3,071</u>	<u>\$ -</u>	<u>\$ 67,936</u>
	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2012</u>
Building	20 years	\$ 143,122	\$ -	\$ -	\$ 143,122
Building improvements	15 years	45,429	-	-	45,429
Furniture, fixtures and equipment	1 - 10 years	206,574	4,300	(93,414)	117,460
Vehicles	3 - 5 years	<u>45,592</u>	<u>-</u>	<u>-</u>	<u>45,592</u>
		440,717	4,300	(93,414)	351,603
Less accumulated depreciation		<u>(365,904)</u>	<u>(14,248)</u>	<u>93,414</u>	<u>(286,738)</u>
		<u>\$ 74,813</u>	<u>\$ (9,948)</u>	<u>\$ -</u>	<u>\$ 64,865</u>

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(4) Commitment and Contingency

Republic of Palau Public Laws (RPPL) 9-5 and RPPL 8-40 appropriated \$635,000 and \$625,000 to PVA for the years ended September 30, 2013 and 2012, respectively, unobligated amounts of which lapse at year end. PVA has recorded liabilities to ROP of \$24,410 as of September 30, 2013 and 2012 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.