

PALAU VISITORS AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2002 AND 2001

INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Visitors Authority:

We have audited the accompanying balance sheets of the Palau Visitors Authority (PVA), a component unit of the Republic of Palau, as of September 30, 2002 and 2001, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the management of PVA. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 PVA as of September 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche

May 22, 2003

PALAU VISITORS AUTHORITY

Balance Sheets
September 30, 2002 and 2001

| <u>ASSETS</u> | <u>2002</u> | <u>2001</u> |
|--------------------------------------|-------------------|-------------------|
| Current assets: | | |
| Cash | \$ <u>137,148</u> | \$ <u>188,351</u> |
| Receivables: | | |
| Employee | 64,212 | 35,571 |
| General | 20,036 | 13,734 |
| Republic of Palau | <u>10,000</u> | <u>39,851</u> |
| | 94,248 | 89,156 |
| Less allowance for doubtful accounts | <u>(25,287)</u> | <u>-</u> |
| Total receivables, net | <u>68,961</u> | <u>89,156</u> |
| Inventory | <u>26,867</u> | <u>16,607</u> |
| Prepaid expenses | <u>2,350</u> | <u>70,225</u> |
| Total current assets | 235,326 | 364,339 |
| Restricted cash | - | 10,000 |
| Fixed assets, net (Note 3) | <u>233,976</u> | <u>263,760</u> |
| | \$ <u>469,302</u> | \$ <u>638,099</u> |

LIABILITIES AND FUND EQUITY

| | | |
|--|-------------------|-------------------|
| Current liabilities: | | |
| Accounts payable | \$ 32,807 | \$ 88,747 |
| Accrued expenses | <u>20,615</u> | <u>17,561</u> |
| Total current liabilities | <u>53,422</u> | <u>106,308</u> |
| Fund equity: | | |
| Retained earnings | <u>415,880</u> | <u>531,791</u> |
| Total fund equity | <u>415,880</u> | <u>531,791</u> |
| Commitment and contingency (Notes 4 and 5) | \$ <u>469,302</u> | \$ <u>638,099</u> |

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Revenues, Expenses and Changes in Fund Equity
 Years Ended September 30, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|---|-------------------|-------------------|
| Operating revenues: | | |
| Republic of Palau appropriation (Note 1) | \$ 1,000,000 | \$ 1,458,000 |
| Miscellaneous | <u>55,513</u> | <u>10,505</u> |
| Total operating revenues | <u>1,055,513</u> | <u>1,468,505</u> |
| Operating expenses: | | |
| Personnel and fringe benefits | 302,075 | 257,746 |
| Representation and tours | 267,713 | 247,055 |
| Promotional materials | 142,397 | 135,992 |
| Other marketing | 95,415 | 84,671 |
| Travel and transportation | 83,941 | 169,266 |
| Tourism development, public awareness, public relations and training | 51,132 | 117,116 |
| Registration, booth rental and membership fees | 41,029 | 56,648 |
| Depreciation | 37,478 | 35,811 |
| Trade magazine coverage | 34,723 | 87,658 |
| Communication and postage | 27,109 | 28,145 |
| Bad debts | 25,287 | - |
| Supplies and printing | 19,168 | 31,307 |
| Contractual services | 3,880 | 4,913 |
| Rent | - | 33,176 |
| Other | <u>40,077</u> | <u>47,334</u> |
| Total operating expenses | <u>1,171,424</u> | <u>1,336,838</u> |
| Net (loss) income | (115,911) | 131,667 |
| Retained earnings at beginning of year | <u>531,791</u> | <u>400,124</u> |
| Retained earnings at end of year | \$ <u>415,880</u> | \$ <u>531,791</u> |

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|---|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Net (loss) income from operations | \$ (115,911) | \$ 131,667 |
| Adjustments to reconcile net (loss) income from operations to net cash (used for) provided by operating activities: | | |
| Depreciation | 37,478 | 35,811 |
| Bad debts | 25,287 | - |
| (Increase) decrease in assets: | | |
| Employee receivables | (28,641) | 19,145 |
| General receivables | (6,302) | (4,222) |
| Receivable from Republic of Palau | 29,851 | (29,851) |
| Inventory | (10,260) | (8,347) |
| Prepaid expenses | 67,875 | (26,839) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (55,940) | 35,668 |
| Accrued expenses | <u>3,054</u> | <u>(7,161)</u> |
| Net cash (used for) provided by operating activities | <u>(53,509)</u> | <u>145,871</u> |
| Cash flows from capital and related financing activities: | | |
| Fixed asset acquisitions | <u>(7,694)</u> | <u>(40,931)</u> |
| Net cash used for capital and related financing activities | <u>(7,694)</u> | <u>(40,931)</u> |
| Cash flows from investing activities: | | |
| Decrease (increase) in restricted cash | <u>10,000</u> | <u>(10,000)</u> |
| Net cash provided by (used for) investing activities | <u>10,000</u> | <u>(10,000)</u> |
| Net (decrease) increase in cash | (51,203) | 94,940 |
| Cash at beginning of year | <u>188,351</u> | <u>93,411</u> |
| Cash at end of year | \$ <u>137,148</u> | \$ <u>188,351</u> |

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(1) Organization

The Palau Visitors Authority (PVA), a component unit of the Republic of Palau, 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). PVA is subject to annual appropriation by the OEK, and was appropriated \$1,000,000 and \$1,458,000 during the years ended September 30, 2002 and 2001, respectively.

(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 balance sheets. 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, 2002 and 2001

(2) Summary of Significant Accounting Policies, Continued

Cash

For purposes of the balance sheets and the statements of cash flows, cash is defined as unrestricted cash on hand and cash held in demand or savings accounts. As of September 30, 2002 and 2001, cash was \$137,148 and \$188,351, respectively, and the corresponding bank balances were \$158,203 and \$253,587, respectively. Of these amounts, \$157,852 and \$246,935, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2002 and 2001, bank deposits in the amount of \$104,874 and \$110,000 were FDIC insured. PVA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

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 collectibility of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables charged to expense.

Inventory

Inventories of unused brochures and supplies are determined by physical count and are valued at the lower-of-cost (first in-first out) or market.

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.

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. Accumulated sick leave is recognized when leave is actually taken. Estimated unused sick leave at September 30, 2002 was \$38,528.

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.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(2) Summary of Significant Accounting Policies, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued

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.

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 2002 and 2001 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 10% 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, 2001 actuarial valuation determined the unfunded pension benefit obligation as follows:

| | |
|--|----------------------|
| Participants in pay status | \$ 39,546,016 |
| Active participants | 24,388,855 |
| Participants with vested deferred benefits | <u>572,878</u> |
| Total pension benefit obligation | 64,507,749 |
| Net assets available for benefits, at market value | <u>33,964,168</u> |
| Unfunded benefit obligation | \$ <u>30,543,581</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.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(3) Fixed Assets

Fixed assets of PVA as of September 30, 2002 and 2001, are summarized below:

| | <u>Estimated Useful Lives</u> | <u>2002</u> | <u>2001</u> |
|-----------------------------------|-----------------------------------|-------------------|-------------------|
| Furniture, fixtures and equipment | 1 - 10 years | \$ 194,555 | \$ 193,442 |
| Building improvements | 15 years | 187,581 | 181,000 |
| Vehicles | 3 - 5 years | <u>74,298</u> | <u>74,298</u> |
| | | 456,434 | 448,740 |
| Less accumulated depreciation | | <u>(222,458)</u> | <u>(184,980)</u> |
| | | <u>\$ 233,976</u> | <u>\$ 263,760</u> |

(4) Commitment

PVA entered into certain contractual agreements for publication and promotional purposes. The remaining obligation under the contracts amounted to \$158,960 as of September 30, 2002.

(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.