

PALAU VISITORS AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Visitors Authority:

We have audited the accompanying statements of net assets of the Palau Visitors Authority (PVA), a component unit of the Republic of Palau, as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of PVA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PVA's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Palau Visitors Authority as of September 30, 2003 and 2002, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

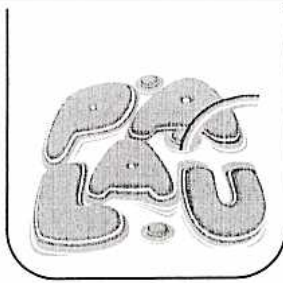
As described in note 2 to the accompanying financial statements, PVA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2005, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLC

May 27, 2005



Palau

Visitors Authority

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Management Discussion and Analysis For Period Ending September 30, 2003 and 2002

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 along with fishery and agriculture.

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

Organization

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

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

The 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 Palau and diversifying tourism attractions aside from water and diving activities.

The PVA is organized into four departments: 1) Marketing and Research 2) Support Services which combines operational functions and Human Resources and 3) Community services of the authority, and 4) Accounting. There are currently 13 full time and one part time staff on board including the managing director who oversees the day-to-day operations of the authority.

The customers of the PVA are visitors to the Republic, internal staff, tourism industry operators, state and national governments and the public.

Statement of Goals and Objectives

The PVA Board has adopted the following key operational objectives for a three-year period beginning in 2002:

- To continue to strengthen Palau's presence in the traditional markets of Japan, North America and Taiwan
- To intensify public awareness campaigns in the newly developed markets in Europe, Asia (Philippines, Taiwan and Hong Kong).
- To look into new markets, particularly in areas like Australia, Thailand and Korea
- To play a proactive role in the development of diversified tourism activities and develop a marketing strategy that support it
- To work closely with the industry, both public and private to achieve improvement in the quality of services and products offered to visitors as well as the quality of visitors to the Republic
- To continuously develop staff professionalism for the purpose of providing excellent customer services within and outside of PVA
- To maintain clear corporate governance including personnel and financial policies
- To continuously improve on recording and accountability of budgetary and financial transactions to ensure full compliance with existing laws and regulations, as well as complying with generally accepted accounting standards.
- To maintain budgetary and internal controls for the purpose of getting more for the limited budget

Funding

PVA receives its operational funding from the Unified Budget appropriation by the OEK; its total budget for FY 02 and 03 has been \$ 1 million each year, out of which \$ 25, 000.00 is earmarked to the Olchotel Belau Fair (Ministry of Community and Cultural Affairs). Sixty percent of total budget is for Marketing as that is the primary function of the authority, 30 percent for administration and 10 percent is expended on community awareness and related programs.

Overview of Financial Statements

Palau Visitors Authority's investment in net assets for fiscal year 2003 was \$205,123 as compared to \$233, 976 for fiscal year 2002. This was due mainly to some assets having been fully depreciated in FY 03. There were no major procurement of equipment during the year.

Statements of Net Assets:

	<u>FY 02</u>	<u>FY 03</u>
Current assets	\$ 208,459	\$ 283,228
Capital assets	<u>233,976</u>	<u>205,123</u>
Total assets	<u>442,435</u>	<u>488,351</u>
Current liabilities	<u>53,422</u>	<u>26,419</u>
Net assets:		
Investment in net assets	233,976	205,123
Unrestricted	<u>155,037</u>	<u>256,809</u>
Total net assets	\$ <u>389,013</u>	\$ <u>461,932</u>

Statements of Changes in Net Assets:

	<u>FY 02</u>	<u>FY 03</u>
Operating revenues	\$ 55,513	\$ 25,852
Operating expenses	<u>1,181,684</u>	<u>952,933</u>
Loss from operations	(1,126,171)	(927,081)
Nonoperating revenues	<u>1,000,000</u>	<u>1,000,000</u>
Change in net assets	(126,171)	72,919
Net assets at beginning of year	<u>515,184</u>	<u>389,013</u>
Net assets at end of year	\$ <u>389,013</u>	\$ <u>461,932</u>

A. Statement of Net Assets:

(1) Receivables- ROP - At fiscal year end, \$101,671 is recorded as receivable from ROP as compared to receivable in FY 02 of \$10,000. This is due to cash availability in the ROP at end of FY 03; as a result, it became necessary for PVA to delay execution of certain activities and move them into the next fiscal year, in effect committing the funds to be expended in the new fiscal year. In FY 02, PVA received its appropriated budget in monthly allotments and in a timely manner and therefore, at end of FY 02, the receivable from ROP was only \$10,000.

(2) Receivables- Employee - was reduced significantly from \$64,212 in FY 02 to \$16,968 in FY 03, indicating that employees turned in travel vouchers after completing overseas trips in a timely manner; and that appropriate steps were implemented by management to minimize receivables at year end.

(3) Allowance for Doubtful Accounts - The PVA Board adopted a policy to reduce its Accounts Receivable. Consequently, allowance for doubtful accounts was reduced significantly from \$25,287 in FY 02 to \$16,515 in FY 03 as liquidation of TA's was improved in FY 03 as well as other receivables.

(4) Accounts Payable - in FY 02, A/P totaled \$32,807 and in FY 03 it was reduced significantly to \$3,967, an overall indication that record keeping and accounting were better maintained, that procurement and payment tracking were up to date and that payment to creditors were made in a timely manner.

B. Change in Net Assets

(1) Operating Revenues - Miscellaneous - In FY 03 PVA generated miscellaneous revenue of \$25,852 as compared to \$55,513 in FY 02, the reason being that in 2002, a visitor guide was produced and printed by the Authority through advertisement support from the businesses; the sales of ad placements generated \$55,513 in revenues for that year. There was no publication of the guidebook in FY 03. Thus, no significant revenue was received/recorded.

(2) Operating Expenses - Other marketing: This was significantly increased from \$95,415 in FY 02 to \$249,283 in FY 03 as the Authority engaged in new marketing activities, which included airing an ad on CNN for 30 days, completely revamped the PVA webpage and designed a new look, etc.

(3) Operating Expenses - Rep. and Tours: The number of familiarization visits made by journalists of major publications increased as compared to 2002, most notably from Europe as PVA appointed a new PR there. However costs were monitored closely.

(4) Operating Expenses - Personnel: This was reduced due to resignations of two management level personnel and no new hiring was made during the year.

(5) Operating Expenses - Travel and Transportation: Although overall travel was reduced, this is significant reduction and it is the observation of PVA management that it is likely that some travels are recorded in other marketing accounts.

(6) Operating Expenses - Promotional Materials: In FY 03, this was reduced considerably due to the fact that in 02, \$152,657 was expended to produce and print promo materials that would last for two years. Therefore, the next major printing would occur in 2004.

(7) Operating Expenses - Communication and Postage: This was reduced significantly due to utilization of the internet and e-mail to communicate overseas in place of long distance calls and faxes; postage for mailing was reduced too as interested visitors obtained general information directly from the PVA webpage.

(8) Operating Expenses - Contractual Services - this increased in FY 03 by over \$10,000 as there was a major maintenance work to the building.

(9) Operating Expenses - Supplies and Printing: Considerable effort was exercised at reducing consumption of office supplies including use of paper distribution. E-mail communication was emphasized.

(10) Operating Expense - Trade magazine coverage: The PVA Board adopted a policy to refrain from printed ads during FY 03 and divert much of the marketing resources to television ads, thus a reduction from \$34,723 in FY02 to \$10,916 in FY 03.

(11) Operating Expense - Bad Debts and Others: Bad debts and other expenses were reduced considerably as record keeping and implementing of policies were improved, thus a reduction from \$25,287 and \$40,077 in FY 02 to \$4,812 and \$27,861 in FY 03, respectively.

Concluding Summary

In FY 03, the Palau Visitors Authority adopted its finance policies, setting operational and financial parameters as well as placing emphasis on efficiency and effectiveness of operations. As a result, better internal control system is in place, which has enabled the Authority to achieve better control over operational costs; improved accountability and check and balance. Overall these changes have enabled the Authority to realize gains (Change in net assets) of \$72,919 in FY 03 as compared to the loss of \$126,171 in FY 02.

PALAU VISITORS AUTHORITY

Statements of Net Assets
September 30, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u> <u>(As Restated)</u>
Current assets:		
Cash	\$ <u>170,570</u>	\$ <u>137,148</u>
Receivables:		
Republic of Palau	101,671	10,000
Employee	16,968	64,212
General	<u>9,350</u>	<u>20,036</u>
	127,989	94,248
Less allowance for doubtful accounts	<u>(16,515)</u>	<u>(25,287)</u>
Total receivables, net	<u>111,474</u>	<u>68,961</u>
Prepaid expenses	<u>1,184</u>	<u>2,350</u>
Total current assets	283,228	208,459
Fixed assets, net	<u>205,123</u>	<u>233,976</u>
	<u>\$ 488,351</u>	<u>\$ 442,435</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 3,967	\$ 32,807
Accrued expenses	<u>22,452</u>	<u>20,615</u>
Total current liabilities	<u>26,419</u>	<u>53,422</u>
Commitment and contingency		
Net assets:		
Investment in net assets	205,123	233,976
Unrestricted	<u>256,809</u>	<u>155,037</u>
Total net assets	<u>461,932</u>	<u>389,013</u>
	<u>\$ 488,351</u>	<u>\$ 442,435</u>

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u> (As Restated)
Operating revenues:		
Miscellaneous	\$ <u>25,852</u>	\$ <u>55,513</u>
Total operating revenues	<u>25,852</u>	<u>55,513</u>
Operating expenses:		
Other marketing	249,283	95,415
Representation and tours	220,639	267,713
Personnel and fringe benefits	202,688	302,075
Tourism development, public awareness, public relations and training	79,206	51,132
Depreciation	35,112	37,478
Registration, booth rental and membership fees	31,117	41,029
Travel and transportation	26,585	83,941
Promotional materials	20,377	152,657
Communication and postage	18,119	27,109
Contractual services	13,209	3,880
Supplies and printing	13,009	19,168
Trade magazine coverage	10,916	34,723
Bad debts	4,812	25,287
Other	<u>27,861</u>	<u>40,077</u>
Total operating expenses	<u>952,933</u>	<u>1,181,684</u>
Loss from operations	(927,081)	(1,126,171)
Nonoperating revenues:		
Republic of Palau appropriation	<u>1,000,000</u>	<u>1,000,000</u>
Change in net assets	72,919	(126,171)
Net assets at beginning of year	<u>389,013</u>	<u>515,184</u>
Net assets at end of year	\$ <u><u>461,932</u></u>	\$ <u><u>389,013</u></u>

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u> <u>(As Restated)</u>
Cash flows from operating activities:		
Cash received from customers	\$ 70,198	\$ 20,570
Cash payments to suppliers for goods and services	(736,158)	(801,855)
Cash payments to employees for services	<u>(202,688)</u>	<u>(302,075)</u>
Net cash used for operating activities	<u>(868,648)</u>	<u>(1,083,360)</u>
Cash flows from noncapital financing activities:		
Republic of Palau appropriations	<u>908,329</u>	<u>1,029,851</u>
Net cash provided by operating activities	<u>908,329</u>	<u>1,029,851</u>
Cash flows from capital and related financing activities:		
Fixed asset acquisitions	<u>(6,259)</u>	<u>(7,694)</u>
Net cash used for capital and related financing activities	<u>(6,259)</u>	<u>(7,694)</u>
Cash flows from investing activities:		
Decrease in restricted cash	<u>-</u>	<u>10,000</u>
Net cash provided by investing activities	<u>-</u>	<u>10,000</u>
Net increase (decrease) in cash	33,422	(51,203)
Cash at beginning of year	<u>137,148</u>	<u>188,351</u>
Cash at end of year	\$ <u>170,570</u>	\$ <u>137,148</u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (927,081)	\$ (1,126,171)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	35,112	37,478
Bad debts	4,812	25,287
(Increase) decrease in assets:		
Employee receivables	33,660	(28,641)
General receivables	10,686	(6,302)
Prepaid expenses	1,166	67,875
Increase (decrease) in liabilities:		
Accounts payable	(28,840)	(55,940)
Accrued expenses	<u>1,837</u>	<u>3,054</u>
Net cash used for operating activities	\$ <u>(868,648)</u>	\$ <u>(1,083,360)</u>

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(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). PVA is subject to annual appropriation by the OEK, and was appropriated \$1,000,000 during the years ended September 30, 2003 and 2002.

(2) Summary of Significant Accounting Policies

The accounting policies of PVA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. PVA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources, measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included in the statements of net assets. Proprietary fund operating statements reflect increases and decreases in net total assets and utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Budget and Appropriation

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

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

Cash

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand or savings accounts. As of September 30, 2003 and 2002, cash was \$170,570 and \$137,148, respectively, and the corresponding bank balances were \$198,531 and \$158,203, respectively. Of these amounts, \$192,459 and \$157,852, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003 and 2002, bank deposits in the amount of \$104,302 and \$104,874 were FDIC insured. PVA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

Allowance for Doubtful Accounts

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.

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, 2003 was \$8,933.

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.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued

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 2003 and 2002 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.

New Accounting Standards

GASB has issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and modified by Statement No. 38, *Certain Financial Statement Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements. PVA has adopted GASB Statement No. 34, as amended by GASB Statement No. 37, and certain provisions of GASB Statement No. 38 in fiscal year 2003.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

To conform to the requirements of GASB 34, the following changes have been made to PVA's financial statements:

- Retained earnings have been reclassified into the following net assets categories:
 - Investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
 - Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.
- The statement of cash flows has been presented using the direct method.

For fiscal year 2005, PVA will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. As of September 30, 2003, PVA has not evaluated the financial statement impact of GASB Statement Nos. 40 and 42.

(3) Fixed Assets

Fixed assets of PVA as of September 30, 2003 and 2002, are summarized below:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2003</u>
Furniture, fixtures and equipment	1 - 10 years	\$ 194,555	\$ 6,259	\$ (1,571)	\$ 199,243
Building improvements	15 years	187,581	-	1,571	189,152
Vehicles	3 - 5 years	<u>74,298</u>	<u>-</u>	<u>-</u>	<u>74,298</u>
		456,434	6,259	-	462,693
Less accumulated depreciation		<u>(222,458)</u>	<u>(35,112)</u>	<u>-</u>	<u>(257,570)</u>
		\$ <u>233,976</u>	\$ <u>(28,853)</u>	\$ <u>-</u>	\$ <u>205,123</u>
	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2002</u>
Furniture, fixtures and equipment	1 - 10 years	\$ 193,442	\$ 1,113	\$ -	\$ 194,555
Building improvements	15 years	181,000	6,581	-	187,581
Vehicles	3 - 5 years	<u>74,298</u>	<u>-</u>	<u>-</u>	<u>74,298</u>
		448,740	7,694	-	456,434
Less accumulated depreciation		<u>(184,980)</u>	<u>(37,478)</u>	<u>-</u>	<u>(222,458)</u>
		\$ <u>263,760</u>	\$ <u>(29,784)</u>	\$ <u>-</u>	\$ <u>233,976</u>

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2003 and 2002

(4) Commitment

PVA entered into certain contractual agreements for publication and promotional purposes. The remaining obligation under the contracts amounted to \$246,700 as of September 30, 2003.

(5) Contingency

Republic of Palau Public Law (RPPL) 6-26 appropriated \$1,000,000 to PVA, for the year ended September 30, 2003, unobligated amounts of which lapse at year end. PVA recorded \$952,933 of expenses against this appropriation during the year ended September 30, 2003 and committed additional amounts for promotions and marketing expenses in fiscal year 2004. The management of PVA has determined that such commitments may be applied against RPPL 6-26. PVA was appropriated \$1,000,000 for the year ended September 30, 2002, which did not lapse.

(6) 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.

(7) Restatement

Management of PVA has determined that \$26,867 and \$16,607 recorded as inventory as of September 30, 2002 and 2001, respectively, had no current market value. Accordingly, inventory balances have been restated to \$-0- with corresponding amounts reflected as promotional materials expense.