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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

Deloitte.

Deloitte & Touche LLC
P.O. Box 500308
Saipan, MP 96950-0308
USA

Tel: +1 670 322 7337/0860/0861
Fax: +1 670 322 7340
www.deloitte.com

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, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of PVA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Palau Visitors Authority as of September 30, 2010 and 2009, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2011, on our consideration of PVA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

February 21, 2011

Palau
Visitors Authority
P. O. Box 256, Koror, Republic of Palau 96940
Tel: (680) 488-2793/1930 Fax: (680) 488-1453
Email: pva@visit-palau.com www.visit-palau.com

Management's Discussion and Analysis
Year Ended September 30, 2010

Purpose

The mission of the Palau Visitors Authority (PVA) is to promote and encourage the development and marketing of tourism as one of the main revenue earning sectors of the Republic of Palau (ROP) along with fishery and agriculture.

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

Organization

PVA is composed of a seven-member Board of Directors appointed by the President, with advice and consent of the Senate, to serve terms of two years. Its primary duties are to develop policies and guidelines that account for the effective and efficient management of the organization. The Board 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 has another key responsibility in that it recommends to the President and Congress the passage of legislation aimed at ensuring that tourism is developed in the best interests of ROP.

PVA acts as a liaison between the tourism industry and the community, particularly the States, by assessing and encouraging development of potential tourist sites and land-based activities for the purpose of spreading tourist traffic throughout ROP and diversifying tourism attractions aside from water and diving activities.

There are three (3) main operational areas within the PVA structure: 1) Marketing & Research, 2) Community & Support Services, and 3) Accounting. There are currently thirteen full-time and one part-time staff on board. Contract personnel are hired from time to time to undertake specific projects as necessary.

The customers of PVA are visitors to ROP, tourism industry operators, State and National governments, the public and internal associates of PVA.

Statement of Goals and Objectives

Mission Statement:

We are committed to promote our heritage and the unique attractions of Palau through sustainable tourism development and the encouragement of responsible practices.

Medium Term Goals:

PVA's ultimate goal is for the diversification of market shares by attracting high-end and quality travelers in key markets (Japan, North America, Taiwan, Philippines 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, Korea and Russia.

Fiscal Year Objectives:

1. Determine the status of PVA; whether it will remain a semi-autonomous entity or whether it will be transferred to the Ministry of Natural Resources, Environment & Tourism;

2. Implement Tri-Org's "Tourism Strategic Plan" (TAP) for the next 5 to 10 years, which will identify branding, mission, goals, preferred markets and high-end and quality tourists;

3. Increase visitor arrivals by at least 3% annually despite the global economic challenges;

4. Upgrade the PVA website (www.visit-palau.com) to be more user friendly and to design and produce new printed marketing/promotional collaterals;

5. Promote Palau as a "choice and desirable destination" through marketing collaterals, printed and audio media, trade shows, sales seminars and through PVA overseas representations;

6. Aggressive marketing through the internet (e-marketing);

7. 100% implementation of "Bai Rating" to all hotels, resorts and motels in Palau; and

8. Ensure community and support services include:

    a. Partnership with PVA State representatives on development and promotion of tourist attractions within each State as well as development of road signs and maps;

    b. Strengthen public awareness for tourism related economic activities concerning the preservation of Palau's natural and cultural heritage;

    c. Island-wide beautification campaign to improve Palau's attractiveness;

    d. Promulgate regulations to improve procedures and penalties of tour operator licensing;

    e. Coordinate with the Koror State Government on implementation of tour guide standards as a requirement for all tour guides; and

    f. Source and conduct customer service training to tourism related partners such as hoteliers, tour operators, Immigration and Customs personnel, etc.

Funding

PVA receives its annual operational funding from the Unified Budget appropriation of the OEK. Its total budget for FY2010, FY2009 and FY2008 was $627,500, $725,000 and $725,000, respectively, of which $25,000 was earmarked by ROP in FY2009 for the Olechotel Belau Fair. PVA's budget is allocated based on its main functions of authority as follows: 59.3% for Marketing & Research, 26.2% for Administration and 14.5% for Community Services and related program developments.

Overview of Financial Statements

PVA's investment in capital assets for FY2010 was $84,078 as compared to $96,800 in FY2009 and $113,203 in FY2008. This was due to assets being fully depreciated.

Statements of Net Assets:

	2010	2009	2008
Current assets	$ 221,952	$ 200,318	$ 221,408
Capital assets	84,078	96,800	113,203
Total assets	306,030	297,118	334,611
Current liabilities	58,108	70,688	92,481
Net assets:			
Invested in capital assets	84,078	96,800	113,203
Unrestricted	163,844	129,630	128,927
Total net assets	$ 247,922	$ 226,430	$ 242,130

Statements of Revenues, Expenses and Changes in Net Assets:

	2010	2009	2008
Operating revenues	$ 4,908	$ 24,892	$ 17,635
Operating expenses	610,916	765,592	798,310
Loss from operations	(606,008)	(740,700)	(780,675)
Nonoperating revenues	627,500	725,000	725,000
Change in net assets	21,492	(15,700)	(55,675)
Net assets at beginning of year	226,430	242,130	297,805
Net assets at end of year	$ 247,922	$ 226,430	$ 242,130

Statements of Cash Flows:

	2010	2009	2008
Cash flows from operating activities	$ (606,926)	$ (729,613)	$ (746,967)
Cash flows from noncapital financing activities	576,147	676,896	806,806
Cash flows from capital and related financing activities	(3,972)	(772)	(12,542)
Net (decrease) increase in cash	(34,751)	(53,489)	47,297
Cash at beginning of year	74,949	128,438	81,141
Cash at end of year	$ 40,198	$ 74,949	$ 128,438

Statements of Net Assets:

1. ROP receivables amounted to $180,253 in FY2010 as compared to $128,900 in FY2009 and $80,796 in FY2008. Because of unfavorable cash availability from ROP for the fiscal year ended 2010, PVA was unable to execute certain activities that were delayed in FY2009 as well as activities that were planned for FY2010.

2. Employee receivables and travel advances amounted to $4,512 in FY2010 as compared to $12,926 in FY2009 and $15,725 in FY2008. The decrease is attributed to timely submission of trip reports.

3. The allowance for doubtful accounts decreased to $3,041 in FY2010 as compared to $17,193 in FY2009 and $4,307 in FY2008. Reductions were made in accounts pertaining to travel advances of prior years.

4. Accounts payable decreased to $9,056 in FY2010 as compared to $19,825 in FY2009 and $43,315 in FY2008. This improvement is due to aggressive follow-up on allotment disbursements from ROP to stay within a thirty to sixty day aging.

5. At September 30, 2010, 2009 and 2008, PVA had $84,078, $96,800 and $113,203, respectively, in fixed assets, net of accumulated depreciation where applicable, including furniture, fixtures and equipment, building improvements and vehicles. The decrease over the years is due to improved reconciliation and posting of fixed assets depreciation. See note 3 to the financial statements for more information on PVA's fixed assets.

6. Total net assets increased to $247,922 in FY2010 as compared to $226,430 in FY2009 and $242,130 in FY2008, which is primarily attributed to decreased expenses.

Statements of Revenues, Expenses and Changes in Net Assets:

1. Operating revenues amounted to $4,908 in FY2010 as compared to $24,892 in FY2009 and $17,635 in FY2008 from sales of miscellaneous promotional items and collection of contributions from local tourism industry partners for their share of costs in participating in trade shows, exhibitions, product seminars and road shows at various key markets.

2. Operating expenses - contractual services amounted to $7,798 in FY2010 as compared to $22,050 in FY2009 and $445 in FY2008. The decrease in FY2010 is due to a reduction of accounting consultant fees to conduct on-the-job training of accounting personnel.

3. Operating expenses - representation and tours amounted to $181,213 in FY2010 as compared to $265,580 in FY2009 and $245,636 in FY2008. PVA continues to strengthen its efforts on familiarization tours not only in Japan, North America and Europe, but has expanded into the Asia Pacific market to include the Philippines, Taiwan and Australia. Costs were contained within budgeted amounts.

4. Operating expenses - personnel and fringe benefits amounted to $199,176 in FY2010 as compared to $206,139 in FY2009 and $229,000 in FY2008 due to vacancies in the Marketing & Research department.

5. Operating expenses - registration, booth rental and membership fees amounted to $8,624 in FY2010 as compared to $8,485 in FY2009 and $8,050 in FY2008 due to participation costs being co-shared with interested local tourism industry partners.

6. Operating expenses - depreciation amounted to $16,694 in FY2010 as compared to $17,175 in FY2009 and $15,186 in FY2008 due to fully depreciated fixed assets.

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

7. Operating expenses - communications and postage, supplies and printing amounted to $16,997 in FY2010 as compared to $17,848 in FY2009 and $23,863 in FY2008 due to PVA's continuing efforts in minimizing costs by maximizing its publicity and communications in-house, as opposed to outsourcing publicity and communications via fax and telephone.

8. Operating expenses - other amounted to $43,927 in FY2010 as compared to $63,155 in FY2009 and $56,064 in FY2008 due to low cash flows as ROP budget allotments were not being disbursed in a timely manner to allow PVA to implement some of its planned activities.

9. Nonoperating revenues amounted to $627,500 in FY2010 as compared to $725,000 in FY2009 and FY2008 due to a reduction of PVA's budget from ROP.

Concluding Summary

In FY2010 and FY2009, PVA continued adherence to finance and property management policies and procedures implemented in FY2007, which improved operational and financial compliance and controls for PVA's operations. However, due to a high turnover of accounting personnel, consistency in maintaining monthly reconciliations and recordkeeping was not as PVA desired. PVA hopes to do its best to improve on compliance and adherence to finance and property management policies and procedures.

Economic Outlook

Having endured its share of challenges due to the continued global economic crisis worldwide, Palau visitor arrivals were 85,593 in FY2010 as compared to 71,887 in FY2009 and 79,259 in FY2008. This can be attributed to positive growth of the Japan, Taiwan, Korea, North America and European markets. Additionally, PVA continues to maximize its marketing and promotional efforts with Continental Airlines, Japan Airlines and possibly Delta Airlines. Moreover, PVA continues to strengthen its marketing and promotional partnership with the Belau Tourism Association for the short-haul markets such as Japan, Korea, Philippines, Australia and Guam.

Contacting PVA's Financial Management

This financial report is designed to provide a general overview of PVA's finances and to demonstrate PVA's accountability for the money it receives. The Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in the report on the audit of PVA's financial statements which is dated June 19, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements. If you have questions about the 2009 or 2008 reports, or need additional information, please contact the Managing Director at the Palau Visitors Authority, P.O. Box 256, Koror, Republic of Palau 96940, or e-mail ddeleon.pva@visit-palau.com or call 488-2793 or 488-1930.

PALAU VISITORS AUTHORITY

Statements of Net Assets
September 30, 2010 and 2009

ASSETS	2010	2009
Current assets:		
Cash	$ 40,198	$ 74,949
Receivables:		
Republic of Palau	180,253	128,900
Employee	4,512	12,926
	184,765	141,826
Less allowance for doubtful accounts	(3,041)	(17,193)
Total receivables, net	181,724	124,633
Prepaid expenses	30	736
Total current assets	221,952	200,318
Fixed assets, net	84,078	96,800
	$ 306,030	$ 297,118
LIABILITIES AND NET ASSETS		
Current liabilities:		
Republic of Palau	$ 24,410	$ 24,410
Accounts payable	9,056	19,825
Accrued expenses	24,642	26,453
Total current liabilities	58,108	70,688
Commitment and contingency		
Net assets:		
Invested in capital assets	84,078	96,800
Unrestricted	163,844	129,630
Total net assets	247,922	226,430
	$ 306,030	$ 297,118

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Miscellaneous	$ 4,908	$ 24,892
Total operating revenues	4,908	24,892
Operating expenses:		
Personnel and fringe benefits	199,176	206,139
Representation and tours	181,213	265,580
Tourism development, public awareness, public relations and training	94,537	118,108
Other marketing	22,647	27,193
Depreciation	16,694	17,175
Communication and postage	10,085	10,452
Bad debts	9,760	12,886
Registration, booth rental and membership fees	8,624	8,485
Contractual services	7,798	22,050
Supplies and printing	6,912	7,396
Travel and transportation	5,892	5,180
Trade magazine coverage	3,651	1,793
Other	43,927	63,155
Total operating expenses	610,916	765,592
Loss from operations	(606,008)	(740,700)
Nonoperating revenues:		
Republic of Palau appropriation	627,500	725,000
Change in net assets	21,492	(15,700)
Net assets at beginning of year	226,430	242,130
Net assets at end of year	$ 247,922	$ 226,430

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 4,908	$ 24,892
Cash payments to suppliers for goods and services	(410,847)	(550,063)
Cash payments to employees for services	(200,987)	(204,442)
Net cash used for operating activities	(606,926)	(729,613)
Cash flows from noncapital financing activities:		
Republic of Palau appropriations	576,147	676,896
Net cash provided by noncapital financing activities	576,147	676,896
Cash flows from capital and related financing activities:		
Fixed asset acquisitions	(3,972)	(772)
Net cash used for capital and related financing activities	(3,972)	(772)
Net decrease in cash	(34,751)	(53,489)
Cash at beginning of year	74,949	128,438
Cash at end of year	$ 40,198	$ 74,949
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	$ (606,008)	$ (740,700)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	16,694	17,175
Bad debts	9,760	12,886
(Increase) decrease in assets:		
Employee receivables	(15,498)	2,799
Prepaid expenses	706	20
Increase (decrease) in liabilities:		
Accounts payable	(10,769)	(23,490)
Accrued expenses	(1,811)	1,697
Net cash used for operating activities	$ (606,926)	$ (729,613)

See accompanying notes to financial statements.

(1) Organization

The Palau Visitors Authority (PVA), a component unit of the Republic of Palau (ROP), was formed on November 23, 1982, under the provisions of the Republic of Palau Public Law (RPPL) No. 1-49 for the purpose of implementing tourism programs, including marketing and related responsibilities. The law created a wholly owned public corporation managed by a Board of Directors appointed by the President of the Republic of Palau with the advice and consent of the Olbiil Era Kelulau (OEK - Palau National Legislature).

(2) Summary of Significant Accounting Policies

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

Estimates

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

Basis of Accounting

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

Budget and Appropriation

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

(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, 2010 and 2009, cash was $40,198 and $74,949, respectively, and the corresponding bank balances were $50,419 and $137,300, respectively. Of these amounts, $45,161 and $137,169, 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, 2010 and 2009.

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by PVA or its agent in PVA's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in PVA's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in PVA's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, PVA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. PVA does not have a deposit policy for custodial credit risk.

Receivables

PVA grants credit, on an unsecured basis, to individuals, businesses and governmental entities situated in the Republic of Palau. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluation of the collectability of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables charged to expense.

Fixed Assets

Fixed assets are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of $500.

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Accumulated employee annual leave is recognized when such leave is earned. Unpaid accumulated annual leave is recorded as personnel and fringe benefits expense and accrued expenses in the accompanying financial statements. Sick leave expense is recognized when leave is actually taken. Estimated unused sick leave at September 30, 2010 and 2009 was $21,498 and $28,855, respectively.

Republic of Palau Civil Service Pension Trust Fund

PVA contributes to the Palau Civil Service Pension Trust Fund (the Fund), a defined benefit, cost-sharing, multi-employer pension plan established and administered by the Republic of Palau.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents of the Republic of Palau, Republic of Palau State Governments and Republic of Palau agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are the credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. Members, who retire at or after age 60 or with 25 years of vesting service, are entitled to retirement benefits. RPPL 2-26 is the authority under which benefit provisions are established. Member contribution rates are established by RPPL 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. PVA contributed $21,401, $21,844 and $24,033 to the Fund during the fiscal years 2010, 2009 and 2008, respectively, which were equal to the required contributions for each year.

Under the provisions of RPPL 2-26, the Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. PVA's payroll for fiscal years 2009 and 2008 was covered in total by the Fund's pension plan. The Fund utilizes the actuarial cost method termed "agreement cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 8.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

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

The Fund's October 1, 2009 actuarial valuation determined the unfunded pension benefit obligation as follows:

(2) Summary of Significant Accounting Policies, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued

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

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

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses include all direct and administrative revenues and expenses.

Non-operating revenues and expenses result from investing and financing activities including operating grants.

Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, has required PVA to establish net asset categories as follows:

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

- Restricted: net assets subject to externally imposed stipulations that can be fulfilled by actions of PVA pursuant to those stipulations or that expire by the passage of time. At September 30, 2010 and 2009, PVA does not have restricted net assets.

- Unrestricted: net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

New Accounting Standards

During fiscal year 2010, PVA implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PVA.

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

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of PVA.

(3) Fixed Assets

Fixed assets of PVA as of September 30, 2010 and 2009, are summarized below:

	Estimated Useful Lives	Balance at October 1, 2009	Additions	Deletions	Balance at September 30, 2010
Furniture, fixtures and equipment	1 - 10 years	$ 198,292	$ 2,972	$ -	$ 201,264
Building improvements	15 years	187,551	1,000	-	188,551
Vehicles	3 - 5 years	45,592	-	-	45,592
		431,435	3,972	-	435,407
Less accumulated depreciation		(334,635)	(16,694)	-	(351,329)
		$ 96,800	$ (12,722)	$ -	$ 84,078

	Estimated Useful Lives	Balance at October 1, 2008	Additions	Deletions	Balance at September 30, 2009
Furniture, fixtures and equipment	1 - 10 years	$ 197,520	$ 772	$ -	$ 198,292
Building improvements	15 years	187,551	-	-	187,551
Vehicles	3 - 5 years	45,592	-	-	45,592
		430,663	772	-	431,435
Less accumulated depreciation		(317,460)	(17,175)	-	(334,635)
		$ 113,203	$ (16,403)	$ -	$ 96,800

(4) Commitment and Contingency

Republic of Palau Public Laws (RPPL) 8-8 and RPPL 8-2 appropriated $627,500 and $725,000 to PVA for the years ended September 30, 2010 and 2009, respectively, unobligated amounts of which lapse at year end. PVA has recorded liabilities to ROP of $24,410 as of September 30, 2010 and 2009 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.