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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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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, 2012 and 2011, 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, the financial statements referred to previously present fairly, in all material respects, the financial position of the Palau Visitors Authority, as of September 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2013 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* and should be considered in assessing the results of our audit.

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. 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.

Deloitte & Touche LLC

January 22, 2013

Palau
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Management's Discussion and Analysis
Year Ended September 30, 2012

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 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 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 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 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 main operational areas within the PVA structure: 1) Marketing & Research, 2) Community Services & 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:

1. Pursue the "Tourism Action Plan", as developed by the Tri-Org (PVA, the Belau Tourism Association (BTA) and the Palau Chamber of Commerce), for implementation of actions identified for development and sustainability of the tourism industry in Palau.

2. Aggressive marketing and promotions in short-haul markets such as Australia, Guam, Japan, Korea, Taiwan and the Philippines in anticipation of a quick yield on return of investments, due to the global economic crisis that continues to be challenging.

3. Aggressive co-sponsoring/hosting of the Familiarization Tours by Medias (for exposures) and Travel Agents (for destination knowledge) for the increase of visitor arrivals from key markets such as Guam, Japan, Korea, Taiwan, the Philippines and Europe (mainly Germany, France, Italy and the United Kingdom).

4. Upgrade the PVA website to be more users friendly and for maximization as a portal for marketing and promoting Palau via the internet.

5. Form a committee (consisting of relevant individuals) for launching and implementation of the "Bai Rating" system for all accommodation properties in Palau to be rated and noted on PVA's website.

6. Priority objectives for Community Support & Services include:

    a. Enhancement of annual activities, programs and projects (namely WAVE, TAW and Green Fair/Earth Day) to promote community awareness and to support Palau's tourism industry and its sustainability in Palau's economic growth.

    b. Promotion of the "Palauan Night Market" that provides an opportunity to local small businesses to display and sell authentic "Made in Palau" products (arts, handicrafts, jewelries, etc.) and local cuisines for the enjoyment of visitors and locals alike.

    c. Promotion of the "International Night" that provides opportunities to licensed and established hotels and restaurants to display, sell, market and promote their respective products and services to visitors and locals alike and enticing potential customers to patronize their business.

    d. Promote the "I Love Palau, 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.

e. 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.

f. Improve partnerships with each State for the development of interpretive signs to utilize at attraction sites and to implement the "Attractions/Sites Inventory" for diversification of tourist activities in the States.

Funding

PVA receives its annual operational funding from the Unified Budget appropriation of the OEK. Its total budget for FY2012, FY2011 and FY2010 was $625,000, $605,000 and $627,500, respectively. PVA's budget is allocated based on its main functions of authority as follows: 28.3% for Administration, 57.0% for Marketing and Research, 14.7% for Community Services and related program developments.

Overview of Financial Statements

PVA's investment in capital assets for FY2012 was $64,865 as compared to $74,813 in FY2011 and $84,078 in FY2010. This was due to assets being fully depreciated.

Statements of Net Assets:

	2012	2011	2010
Current assets	$ 211,906	$ 244,852	$ 221,952
Capital assets	64,865	74,813	84,078
Total assets	276,771	319,665	306,030
Current liabilities	64,768	74,247	58,108
Net assets:			
Invested in capital assets	64,865	74,813	84,078
Unrestricted	147,138	170,605	163,844
Total net assets	$ 212,003	$ 245,418	$ 247,922

Statements of Revenues, Expenses and Changes in Net Assets:

	2012	2011	2010
Operating revenues	$ 37,475	$ 31,942	$ 4,908
Operating expenses	695,890	639,446	610,916
Loss from operations	(658,415)	(607,504)	(606,008)
Nonoperating revenues	625,000	605,000	627,500
Change in net assets	(33,415)	(2,504)	21,492
Net assets at beginning of year	245,418	247,922	226,430
Net assets at end of year	$ 212,003	$ 245,418	$ 247,922

Statements of Cash Flows:

	2012	2011	2010
Cash flows from operating activities	$ (659,922)	$ (583,619)	$ (606,926)
Cash flows from noncapital financing activities	729,261	675,471	576,147
Cash flows from capital and related financing activities	(4,300)	(5,310)	(3,972)
Net increase (decrease) in cash	65,039	86,542	(34,751)
Cash at beginning of year	126,740	40,198	74,949
Cash at end of year	$ 191,779	$ 126,740	$ 40,198

Statements of Net Assets:

1. ROP receivables amounted to $5,521 in FY2012 as compared to $109,782 in FY2011. Due to favorable cash availability from ROP for the fiscal year ended 2012, PVA was able to receive its monthly budget allotments for the entire fiscal year.

2. Employee receivables amounted to $8,915 in FY2012 as compared to $2,867 in FY2011. 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 $1,239 in FY2012 as compared to $1,482 in FY2011 due to timely employee payroll deductions.

4. Accounts payable amounted to $3,400 in FY2012 as compared to $7,724 in FY2011. This improvement is due to timely disbursement of monthly budgetary allotments from ROP enabling PVA to stay within a thirty to sixty day aging.

5. At September 30, 2012, 2011 and 2010, PVA had invested in capital assets of $64,865, $74,813 and $84,078, respectively, net of accumulated depreciation where applicable, including furniture, fixtures and equipment, building improvements and vehicles. The decrease 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 amounted to $212,003 in FY2012 as compared to $245,418 in FY2011 and $247,922 in FY 2010 which is primarily attributed to timely and proper depreciation of fixed assets.

Statements of Revenues, Expenses and Changes in Net Assets:

1. Operating revenues amounted to $37,475 in FY2012 as compared to $31,942 in FY2011 and $4,908 in FY2010 from collection of contributions from local tourism industry partners who are BTA members for their co-sharing costs in participating at trade shows, exhibitions, product seminars and road shows alongside PVA at various key markets.

2. Operating expenses - contractual services amounted to $15,000 in FY2012, which relates to audit fees, as compared to $11,350 FY2011 and $7,798 in FY2010.

3. Operating expenses - representation and tours amounted to $269,623 in FY2012 as compared to $228,815 in FY2011 and $181,213 in FY2010. The increase is due to launching a first-time exhibit at the MITT 2012 trade show in Moscow to penetrate the Russian market as well as enlarging PVA's booth at the JATA 2012 trade show in honor of Palau's Rock Islands Southern Lagoon being inscribed unto UNESCO World Heritage List, including marketing and promoting the islands to the Japan market.

4. Operating expenses - personnel and fringe benefits amounted to $223,575 in FY2012 as compared to $224,007 in FY2011 and $199,176 in FY2010.

5. Operating expenses - tourism development, public awareness, public relations and training amounted to $94,431 in FY2012 as compared to $92,078 in FY2011 and $94,537 in FY2010; however, costs were contained within budgeted allocations.

6. Operating expenses - registration, booth rental and membership fees amounted to $8,350 in FY2012 as compared to $1,185 in FY2011 and $8,624 in FY2010. The increase is due to PVA's membership renewal with the Pacific Asia Travel Association.

7. Operating expenses - depreciation amounted to $14,248 in FY2012 as compared to $14,575 in FY2011 and $16,694 in FY2010 due to fully depreciated fixed assets.

8. Operating expenses - communications and postage and supplies and printing amounted to $20,151 in FY2012 as compared to $21,482 in FY2011 and $16,997 in FY2010; however, costs were contained within budgeted allocations.

9. Operating expenses - travel and transportation amounted to $11,323 in FY2012 as compared to $7,852 in FY2011 and $5,892 in FY2010 due to the continual increase of fuel costs.

10. Operating expenses - promotional materials amounted to $3,880 in FY2012 as compared to $3,901 in FY2011 and $-0- in FY2010; however, costs were contained within budgeted allocations.

11. Operating expenses - other marketing amounted to $-0- in FY2012 as compared to $3,750 in FY2011 and $22,047 in FY2010 as there were no initiatives undertaken that were not budgetary allocated.

12. Operating expenses - other amounted to $35,309 in FY2012 as compared to $30,451 in FY2011 and $43,927 in FY2010 due to participation at the Yeosu Expo 2012 in Korea, the Cruise Asia Shipping Conference 2012 in Hong Kong and increased marketing and promotions via print media, radio stations and television channels.

13. Nonoperating revenues amounted to $625,000 for FY2012 as compared to $605,000 in FY2011 and $627,500 in FY2010 due to $25,000 earmarked to attend the MITT 2012 trade show in Moscow to penetrate the Russian market for Palau.

Concluding Summary

In FY2012 and FY2011, 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

Having reached its visitor arrivals goal of 100,000 in the year-end December 2011 with 109,057 actual arrivals, Palau continues its aggressive marketing and promotions to repeat yet another year of over 100,000 visitor arrivals by year-end December 2012. In fact, projection is about 9% more arrivals in 2012 compared to 2011. This can be attributed to positive growth in Palau's key markets being Japan, Taiwan, Korea, North America and Europe. Moreover, there is significant positive growth in new emerging markets that could be potential key markets for Palau being China, Hong Kong and Russia. The China market, in particular, shows over a 100% growth. Additionally, PVA continues to maximize its marketing and promotional efforts with United Airlines, Japan Airlines and Delta Air Lines, with hopes of possibly including Asiana Airlines, Korean Air and Palau Airways. PVA continues to strengthen its marketing and promotional partnership with the BTA for markets such as Japan, Korea, Guam, North America and Europe.

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, 2011 is set forth in the report on the audit of PVA's financial statements which is dated February 28, 2012. That Discussion and Analysis explains the major factors impacting the 2011 financial statements. If you have questions about the 2012, 2011 or 2010 reports 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 ddeleon.pva@visit-palau.com or fax (680) 488-1453.

PALAU VISITORS AUTHORITY

Statements of Net Assets
September 30, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash	$ 191,779	$ 126,740
Receivables:		
Republic of Palau	5,521	109,782
Employee	8,915	2,867
	14,436	112,649
Less allowance for doubtful accounts	(1,239)	(1,482)
Total receivables, net	13,197	111,167
Prepaid expenses	6,930	6,945
Total current assets	211,906	244,852
Fixed assets, net	64,865	74,813
	$ 276,771	$ 319,665
LIABILITIES AND NET ASSETS		
Current liabilities:		
Republic of Palau	$ 24,410	$ 24,410
Accounts payable	3,400	7,724
Accrued expenses	36,958	42,113
Total current liabilities	64,768	74,247
Commitment and contingency		
Net assets:		
Invested in capital assets	64,865	74,813
Unrestricted	147,138	170,605
Total net assets	212,003	245,418
	$ 276,771	$ 319,665

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Miscellaneous	$ 37,475	$ 31,942
Total operating revenues	37,475	31,942
Operating expenses:		
Representation and tours	269,623	228,815
Personnel and fringe benefits	223,575	224,007
Tourism development, public awareness, public relations and training	94,431	92,078
Contractual services	15,000	11,350
Depreciation	14,248	14,575
Communication and postage	13,569	12,663
Travel and transportation	11,323	7,852
Registration, booth rental and membership fees	8,350	1,185
Supplies and printing	6,582	8,819
Promotional materials	3,880	3,901
Other marketing	-	3,750
Other	35,309	30,451
Total operating expenses	695,890	639,446
Loss from operations	(658,415)	(607,504)
Nonoperating revenues:		
Republic of Palau appropriation	625,000	605,000
Change in net assets	(33,415)	(2,504)
Net assets at beginning of year	245,418	247,922
Net assets at end of year	$ 212,003	$ 245,418

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 31,184	$ 32,028
Cash payments to suppliers for goods and services	(462,376)	(409,111)
Cash payments to employees for services	(228,730)	(206,536)
Net cash used for operating activities	(659,922)	(583,619)
Cash flows from noncapital financing activities:		
Republic of Palau appropriations	729,261	675,471
Net cash provided by noncapital financing activities	729,261	675,471
Cash flows from capital and related financing activities:		
Fixed asset acquisitions	(4,300)	(5,310)
Net cash used for capital and related financing activities	(4,300)	(5,310)
Net increase in cash	65,039	86,542
Cash at beginning of year	126,740	40,198
Cash at end of year	$ 191,779	$ 126,740
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	$ (658,415)	$ (607,504)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	14,248	14,575
(Increase) decrease in assets:		
Employee receivables	(6,291)	86
Prepaid expenses	15	(6,915)
Increase (decrease) in liabilities:		
Accounts payable	(4,324)	(1,332)
Accrued expenses	(5,155)	17,471
Net cash used for operating activities	$ (659,922)	$ (583,619)

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, 2012 and 2011, cash was $191,779 and $126,740, respectively, and the corresponding bank balances were $200,581 and $133,765, respectively. Of these amounts, $200,284 and $128,012, 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, 2012 and 2011.

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, 2012 and 2011 was $30,079 and $25,920, 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 $23,212, $23,709 and $21,401 to the Fund during the fiscal years 2012, 2011 and 2010, 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 2012 and 2011 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, 2012 and 2011, 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 the year ended September 30, 2012, PVA implemented the following pronouncements:

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses 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 provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PVA.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PVA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PVA.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of PVA.

In April 2012, GASB issued 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. 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 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.

(3) Fixed Assets

Fixed assets of PVA as of September 30, 2012 and 2011, are summarized below:

	Estimated Useful Lives	Balance at October 1, 2011	Additions	Deletions	Balance at September 30, 2012
Building improvements	15 years	$ 188,551	$ -	$ -	$ 188,551
Furniture, fixtures and equipment	1 - 10 years	206,574	4,300	(93,414)	117,460
Vehicles	3 - 5 years	45,592	-	-	45,592
		440,717	4,300	(93,414)	351,603
Less accumulated depreciation		(365,904)	(14,248)	93,414	(286,738)
		$ 74,813	$ (9,948)	$ -	$ 64,865

(3) Fixed Assets, Continued

	Estimated Useful Lives	Balance at October 1, 2010	Additions	Deletions	Balance at September 30, 2011
Furniture, fixtures and equipment	1 - 10 years	$ 201,264	$ 5,310	$ -	$ 206,574
Building improvements	15 years	188,551	-	-	188,551
Vehicles	3 - 5 years	45,592	-	-	45,592
		435,407	5,310	-	440,717
Less accumulated depreciation		(351,329)	(14,575)	-	(365,904)
		$ 84,078	$ (9,265)	$ -	$ 74,813

(4) Commitment and Contingency

Republic of Palau Public Laws (RPPL) 8-40 and RPPL 8-18 appropriated $625,000 and $605,000 to PVA for the years ended September 30, 2012 and 2011, respectively, unobligated amounts of which lapse at year end. PVA has recorded liabilities to ROP of $24,410 as of September 30, 2012 and 2011 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.