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

## FINANCIAL STATEMENTS AND
## INDEPENDENT AUDITORS' REPORT

### YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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# INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Visitors Authority:

## Report on the Financial Statements

We have audited the accompanying financial statements of Palau Visitors Authority (PVA), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palau Visitors Authority as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte.

**Emphasis of Matter**

*COVID-19*

As discussed in Note 5 to the financial statements, PVA determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. However, due to uncertainty surrounding the duration of the COVID-19 pandemic, PVA is unable to reasonably estimate its ultimate financial impact. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 as well as the Schedule of Proportional Share of the Net Pension Liability on page 27 and the Schedule of Pension Contributions on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of PVA's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2021, 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 solely 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 effectiveness of PVA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PVA's internal control over financial reporting and compliance.

Deloitte & Touche LLP

September 20, 2021

### *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 revenues earning sectors of the Republic of Palau (ROP) along with other sector industries.

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 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 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 also key responsibility to recommend 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 now four (4) main operational areas within the PVA structure:  1) Marketing & Programs, 2) State and Community, 3) Strategic Planning and 4) Accounting. There are currently sixteen full-time contracted staff on board.

The customers of PVA are visitors to ROP, tourism industry operators, State and National governments, the public/community members, 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.

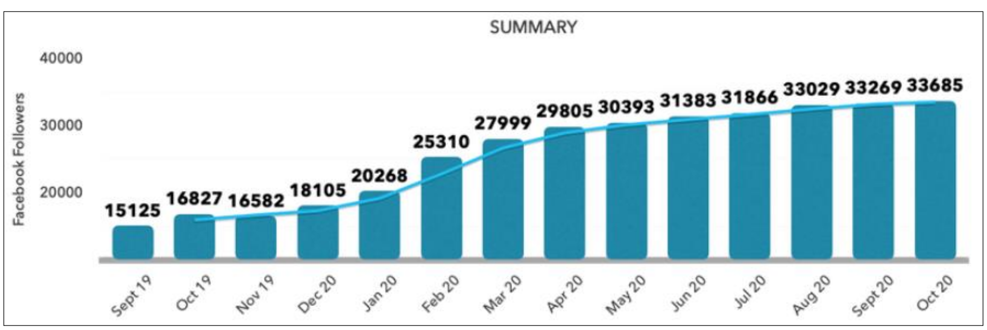
**Medium Term Goals:**

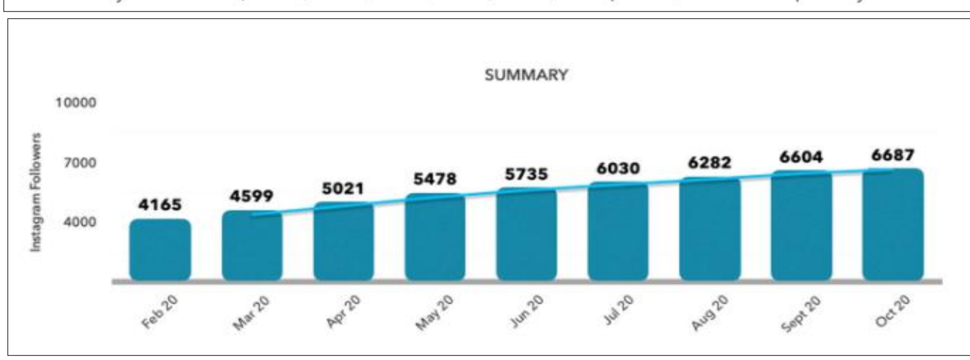
PVA's goal is for the diversification of market shares by attracting high-end and quality travelers in key markets (Japan, North America, Taiwan, Korea, Europe, and Asia Pacific) to enjoy Palau as a choice and desirable destination. At the same time, PVA continues to work with the Pacific Asia Travel Association (PATA) by being an international member as well as being a long-standing member with the PATA Micronesia Chapter to coordinate destination cross promotion and enhancing each destination tourism office through sustainable working relationships.

**Fiscal Year Objectives:**

1. Pursue "Palau Responsible Tourism Framework" implementation, as developed by the Tri-Org (Palau Visitors Authority, Belau Tourism Association and Palau Chamber of Commerce) of actions identified for development and sustainability of tourism industry for Palau.

2. Notwithstanding the global pandemic, PVA is still aggressively marketing and promoting in short-haul markets including Japan, Korea, Taiwan, and Asia Pacific Region through social media platforms. While the North American and Europe markets were hit hard with the COVID-19 pandemic, we continuously promote on social media in anticipation of the markets rebounding and resumption of flights. Facebook followers in FY 2020 saw all increase to 33,685 followers, with 18,560 new followers. The exponential increase on Facebook is due to the team's goal to improve Palau's social media presence through target boosting on social media:




Instagram followers reached a growing of 2,522 new followers in FY 2020.

**Fiscal Year Objectives:, Continued:**

3. PVA continues to pre-plan aggressive co-sponsoring/hosting of Familiarization (FAM) Tours by Media (for exposures) and Travel Agents (for destination knowledge) to increase visitor arrivals from key markets such as Japan, Korea, Taiwan, North America, and Europe (mainly Germany, France, Italy, and UK).

4. PVA has invested and continues to improve its website to be more user friendly and for maximization as a portal for marketing and promoting Palau via the internet. More so, it has developed an Alii pass application that mirrors the new website and it an be used by any traveler to access many of Palau's unique attractions both on land and water, and to promote fledging start up businesses from local entrepreneurs who created their businesses during this pandemic.

5. Priority objectives for State and Community include:

    a. Enhancement of annual activities, programs, and projects (namely TAW, Green Fair/Earth Day, 16 States Coastal and Beach clean-ups and the Belau Kids Camp) to promote community awareness and to support Palau's tourism industry and its sustainability to Palau's economic growth. Beautification programs consist of various coastal/beach clean ups from East of Babeldaob, Angaur and Kayangel. With the joint collaboration of State Governments, PVA was able to conduct coastal/beach clean ups with Airai, Ngchesar, Melekeok and Ngaraard, followed by Angaur and Kayangel State. Trash that were collected were brought back to Koror and with the assistance of KSG Solid Waste Management, trash were segregated and data were provided.

    b. Promotion of "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 and to support young local talented music artists, visual and physical artists, as well as providing a venue for families to spend time and enjoy with our guests.

    c. Palau Visitors Authority has also enacted the Alii Pass program with the goal to enhance, sustain, and promote local states economically through their historical sites, be it local tours and/or local cuisines introduced at lunch or dinner catered by the community.

    d. Secure training opportunities for state governments and private sectors for the development of human resources in the areas of customer services, tour guiding, brochure development, and grant writing.

    e. Improve partnership with each State for development of interpretive signs for utilized attraction sites and to implement "Attractions/Sites Inventory" for diversification of tourist activities to the State.

    f. In May 2020, PVA was appointed by the National Government to be part of the Temporary Workforce Coordinating Committee (TWCC) along with the Ministry of Community and Cultural Affairs and the Social Security Administration. The Coordinating Committee is co-chaired by the Minister of Community and Cultural Affairs and the Chairman of the Board of the Palau Visitors Authority. The Committee includes various government representatives. The purpose of the Committee is to collaborate on logistical matters, coordinate and prioritize projects, avoid duplication of work, and maximize the benefits generated for the Republic and its priorities. Within the TWCC, key staff from each agency

**Fiscal Year Objectives:, Continued:**

were appointed by the Co-Chairpersons to run the Pandemic Re-employment Program or PREP. The Palau Visitors Authority's roles were as follow: disbursement and receiving of applications, updating database, receiving and verifying timesheets, check disbursements for all active participants, finding job opportunities for active participants in the private sector, networking with private companies, seeking vacancies, providing services of search and selection of participants matching CV's with vacancies, constantly updating resume for active participants, and handling work-related issues with participants and agencies.

***Funding***

PVA receives its annual operational funding from the Unified Budget appropriation of the OEK. Its total budget for FY2020, FY2019 and FY2018 was $1,426,000, $1,881,000 and $1,426,000, 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***

***Statements of Net Position:***

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Current assets | $ 789,681 | $ 595,632 | $ 414,836 |
| Capital assets | 93,590 | 68,374 | 78,648 |
| Deferred outflows of resources from pension | 574,161 | 477,546 | 186,030 |
| Total assets and deferred outflows of resources | 1,457,432 | 1,141,552 | 679,514 |
| Current liabilities | 350,847 | 216,927 | 104,980 |
| Net pension liability | 1,270,443 | 1,111,286 | 797,733 |
| Deferred inflow of resources from pension | 308,384 | 292,028 | 261,239 |
| Net position: | | | |
| Invested in capital assets | 93,591 | 68,374 | 78,648 |
| Unrestricted | (565,833) | (547,063) | (563,086) |
| Total liabilities, deferred inflow of resources and net position | $ 1,457,432 | $ 1,141,552 | $ 679,514 |

***Statements of Revenues, Expenses and Changes in Net Position:***

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Operating revenues | $ 72,120 | $ 108,300 | $ 96,996 |
| Operating expenses | 1,491,673 | 1,983,551 | 1,691,129 |
| Loss from operations | (1,419,553) | (1,875,251) | (1,644,133) |
| Nonoperating revenues | 1,426,000 | 1,881,00 | 1,426,00 |
| Change in net position | 6,447 | 5,749 | (218,133) |
| Net position at beginning of year | (478,689) | (484,438) | (266,305) |
| Net position at end of year | $ (472,242) | $ (478,689) | $ (484,438) |

***Statements of Cash Flows:***

| | | | |
|---|---|---|---|
| Cash flows from operating activities | $ (1,533,210) | $ (1,669,641) | $ (1,534,861) |
| Cash flows from noncapital financing activities | 1,734,445 | 1,881,000 | 1,426,000 |
| Cash flows from capital and related financing activities | (52,265) | (9,405) | (20,192) |
| Net increase (decrease) in cash | 148,970 | 201,954 | (129,053) |
| Cash at beginning of year | 536,272 | 334,318 | 463,371 |
| Cash at end of year | $ 685,242 | $ 536,272 | $ 334,318 |

***Statements of Net Position:***

1. Employee receivables amounted to $74,199 in FY 2020 as compared to $34,598 in FY2019. The increase is attributed to a business trip and travel expense reports taken during the last week of September 2020 that are yet to be submitted and liquidated.

2. The allowance for doubtful accounts amounted to $5,180 in FY 2020 as compared to $5,180 in FY2019 due to timely employee payroll deductions.

3. PVA invested in capital assets of $93,590 in FY 2020 as compared to $68,374 in FY 2019, net of accumulated depreciation where applicable, including furniture, machinery and equipment, building improvements and vehicles. The increase is due to current year acquisitions of vehicles and office equipment, net of depreciation expense. Please see note 4 to the financial statements for additional information concerning capital assets.

4. Accounts payable amounted to $2,956 in FY 2020 as compared to $145,001 in FY2019. 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. Due to ROP amounted to $308,445 in FY2020 as compared to $24,410 in FY2019 due to undisbursed PREP funding yet to be utilized.

6. Net pension liability amounted to $1,270,443 in FY2020 as compared to $1,111,286 in FY2019 due to changes in the actuarially determined pension liability. For additional information please see note 3 to the financial statements.

7. Total net position amounted to $(472,242) in FY 2020 as compared to $(478,689) in FY2019, which is primarily attributed to the foregoing movement from various accounts mentioned above.

***Statements of Revenues, Expenses and Changes in Net Position:***

1. Operating revenues amounted to $72,120 in FY 2020 as compared to $108,300 in FY2019 that is attributed to 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, registration for local vendors at every night markets, and entry fee for cultural tour and lunch or dinner at Alii Pass Program.

***Statements of Revenues, Expenses and Changes in Net Position, Continued:***

2. Operating expenses - contractual services amounted to $35,100 in FY2020, which is for the Single audit, legal advisor retainer and COVID-19 Pre-Vaccine protocols & guidelines, as compared to $104,870 in FY2019.

3. Operating expenses - representation and tours amounted to $360,833 in FY2020 as compared to $584,587 in FY2019. The decrease was due to COVID-19 pandemic, where most tradeshows and FAM Tours were cancelled, and all flight going in and out of Palau were suspended.

4. Operating expenses - personnel and fringe benefits amounted to $384,848 in FY2020 as compared to $384,673 in FY2019, more or less, in line annually.

5. Operating expenses - tourism development, public awareness, public relations and training amounted to $493,107 in FY2020 as compared to $733,372 in FY2019 where the decrease is due to COVID-19 resulting in most of PVA activities, programs and trainings being suspended.

6. Operating expenses - registration, booth rental and membership fees amounted to $12,138 in FY2020 as compared to $7,197 in FY2019. Increase due to renewal of PVA's membership with Pacific Asia Travel Association (PATA) and PATA Travel Mart Publication of Daily News.

7. Operating expenses - depreciation amounted to $27,049 in FY2020 as compared to $19,679 in FY2019 due to an increase in capital assets.

8. Operating expenses - communications and postage and supplies and printing amounted to $80,209 in FY2020 as compared to $44,378 in FY2019; increase due to marketing/promotion via social media and printing of PREP payroll checks.

9. Operating expenses - travel and transportation amounted to $5,841 in FY2020 as compared to $5,220 in FY2019, due to the continual increase of fuel costs.

10. Operating expenses - promotional materials amounted to $5,366 in FY2020 as compared to $12,183 in FY2019 as contained within budgeted allocations.

11. Operating expenses - utilities amounted to $13,734 in FY2020 as compared to $11,930 in FY2019 due to increase of fuel cost.

12. Nonoperating revenues amounted to $1,426,000 for FY2020 as compared to $1,881,00 in FY2019, which decreased due to budget reductions.

***Concluding Summary***

In FY2020 and FY2019, PVA tried its best in adhering to finance and property management policies and procedures with the intention to improve 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. 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 – COVID-19 Pandemic, Palau visitor arrivals were 18,360 (-80%) for CY2020 as compared to 94,051 for CY2019. Key market shares are Japan (31%), China (18%), South Korea (15%), Taiwan (14%), USA/Canada (10%), Europe (7%), and all Other Arrivals (5%). PVA will continue to monitor and recommend action plans for declined markets to recover visitor trends during this time and moving forward in the new normal.

### *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, 2019 is set forth in the report on the audit of PVA's financial statements which is dated March 9, 2020. That Discussion and Analysis explains the major factors impacting the 2019 financial statements. If you have questions about the 2020 or 2019 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 call (680) 488-1930; 488-2793 or e-mail kadoi@pristineparadisepalau.com or fax (680) 488-1453.

**PALAU VISITORS AUTHORITY**
**(A Component Unit of the Republic of Palau)**

Statements of Net Position
September 30, 2020 and 2019

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 2020 | 2019 |
|---|---|---|
| Current assets: | | |
| Cash | $ 685,242 | $ 536,272 |
| Receivables: | | |
| Republic of Palau | - | 2,343 |
| Employee and other | 74,199 | 34,598 |
| | 74,199 | 36,941 |
| Less allowance for doubtful accounts | (5,180) | (5,180) |
| Total receivables, net | 69,019 | 31,761 |
| Prepaid expenses | 35,420 | 27,599 |
| Total current assets | 789,681 | 595,632 |
| Capital assets, net | 93,590 | 68,374 |
| Total assets | 883,271 | 664,006 |
| Deferred outflows of resources from pension | 574,161 | 477,546 |
| Total assets and deferred outflows of resources | $ 1,457,432 | $ 1,141,552 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION** | | |
| Current liabilities: | | |
| Republic of Palau | $ 308,445 | $ 24,410 |
| Accounts payable | 2,956 | 145,001 |
| Accrued expenses | 39,446 | 47,516 |
| Total current liabilities | 350,847 | 216,927 |
| Net pension liability | 1,270,443 | 1,111,286 |
| Total liabilities | 1,621,290 | 1,328,213 |
| Deferred inflows of resources from pension | 308,384 | 292,028 |
| Total liabilities and deferred inflows of resources | 1,929,674 | 1,620,241 |
| Commitment and contingency | | |
| Net position: | | |
| Net investment in capital assets | 93,590 | 68,374 |
| Unrestricted | (565,833) | (547,063) |
| Total net position | (472,242) | (478,689) |
| Total liabilities, deferred inflows of resources and net position | $ 1,457,432 | $ 1,141,552 |

See accompanying notes to financial statements.

**PALAU VISITORS AUTHORITY**
**(A Component Unit of the Republic of Palau)**

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Operating revenues: | | |
| Miscellaneous | $ 72,120 | $ 108,300 |
| Operating expenses: | | |
| Tourism development, public awareness, public relations and training | 493,107 | 733,372 |
| Personnel and fringe benefits | 384,848 | 384,673 |
| Representation and tours | 360,833 | 584,587 |
| Communication and postage | 80,209 | 44,378 |
| Contractual services | 35,100 | 104,870 |
| Depreciation | 27,049 | 19,679 |
| Supplies and printing | 15,057 | 10,002 |
| Utilities | 13,734 | 11,930 |
| Registration, booth rental and membership fees | 12,138 | 7,197 |
| Travel and transportation | 5,841 | 5,220 |
| Promotional materials | 5,366 | 12,183 |
| Other | 58,391 | 65,460 |
| Total operating expenses | 1,491,673 | 1,983,551 |
| Loss from operations | (1,419,553) | (1,875,251) |
| Nonoperating revenues: | | |
| Republic of Palau appropriation | 1,426,000 | 1,881,000 |
| PREP funding | 491,555 | - |
| PREP expense | (491,555) | - |
| Total nonoperating revenues | 1,426,000 | 1,881,000 |
| Change in net position | 6,447 | 5,749 |
| Net position at beginning of year | (478,689) | (484,438) |
| Net position at end of year | $ (472,242) | $ (478,689) |

See accompanying notes to financial statements.

**PALAU VISITORS AUTHORITY**
**(A Component Unit of the Republic of Palau)**

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Cash received from customers | $ | 73,062 | $ | 108,300 |
| Cash payments to suppliers for goods and services | | (1,298,807) | | (1,430,733) |
| Cash payments to employees for services | | (307,465) | | (347,208) |
| Net cash used for operating activities | | (1,533,210) | | (1,669,641) |
| Cash flows from noncapital financing activities: | | | | |
| Republic of Palau appropriations | | 1,426,000 | | 1,881,000 |
| Republic of Palau PREP funding | | 800,000 | | - |
| PREP wages paid to temporary workforce | | (491,555) | | - |
| Net cash provided by noncapital financing activities | | 1,734,445 | | 1,881,000 |
| Cash flows from capital and related financing activities: | | | | |
| Capital asset acquisitions | | (52,265) | | (9,405) |
| Net cash used for capital and related financing activities | | (52,265) | | (9,405) |
| Net increase in cash | | 148,970 | | 201,954 |
| Cash at beginning of year | | 536,272 | | 334,318 |
| Cash at end of year | $ | 685,242 | $ | 536,272 |
| Reconciliation of loss from operations to net cash used for operating activities: | | | | |
| Loss from operations | $ | (1,419,553) | $ | (1,875,251) |
| Adjustments to reconcile loss from operations to net cash used for operating activities: | | | | |
| Depreciation | | 27,049 | | 19,679 |
| Noncash pension costs | | 78,954 | | 52,826 |
| (Increase) decrease in assets: | | | | |
| Employee and other receivables | | (37,258) | | (7,842) |
| Prepaid expenses | | (7,821) | | 29,000 |
| Increase (decrease) in liabilities: | | | | |
| Accounts payable | | (166,511) | | 119,466 |
| Accrued expenses | | (8,070) | | (7,519) |
| Net cash used for operating activities | $ | (1,533,210) | $ | (1,669,641) |

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 ROP with the advice and consent of the Olbiil Era Kelulau (OEK - Palau National Legislature).

(2) Summary of Significant Accounting Policies

The accounting policies of PVA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. PVA utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Estimates

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

Basis of Accounting

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

Budget and Appropriation

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

Cash

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash held in demand or savings accounts. As of September 30, 2020 and 2019, cash was $685,242 and $536,272, respectively, and the corresponding bank balances were $703,963 and $553,776, respectively. Of these amounts, $703,823 and $553,722, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. PVA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

## (2) Summary of Significant Accounting Policies, Continued

### Receivables

PVA grants credit, on an unsecured basis, to individuals, businesses and governmental entities situated in ROP. 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 and bad debts are written-off against the allowance based on the specific identification method.

### Capital Assets

Capital 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.

### Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. PVA has determined the changes in assumption, changes in proportion and difference between PVA's contributions and proportionate share of contributions and pension contributions made subsequent to the measurement date qualify for reporting in this category.

### 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, 2020 and 2019 was $21,981 and $38,335, respectively.

### 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.

### Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. PVA has determined the changes in assumption, differences between projected and actual earnings on pension plan investments and changes in proportion and difference between PVA's contributions and proportionate share of contributions qualify for reporting in this category.

## (2) Summary of Significant Accounting Policies, Continued

### Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. PVA recognizes a net pension liability for the defined benefit pension plan, which represents PVA's proportional share of excess total pension liability over the pension plan assets - actuarially calculated - of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

### Net Position

PVA's net position is classified as follows:

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

- Restricted: net position subject to externally imposed stipulations that can be fulfilled by actions of PVA pursuant to those stipulations or that expire by the passage of time. At September 30, 2020 and 2019, PVA has not recorded a restricted net position.

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

### New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

## (2) Summary of Significant Accounting Policies, Continued

### New Accounting Standards Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

## (3) Employees' Retirement Plan

### Defined Benefit Plan

A. General Information About the Pension Plan:

*Plan Description:* PVA contributes to the Republic of Palau Civil Service Pension Trust Fund (the Plan), a defined benefit, cost sharing multiple employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987, and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2.

A single actuarial valuation report is performed annually covering all plan members and the same contribution rate applies to each employer. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the Plan's Administrator at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call (680) 488-2523.

*Plan Membership.* As of October 1, 2019, the valuation date, plan membership consisted of the following:

| | |
|---|---|
| Inactive members currently receiving benefits | 1,629 |
| Inactive members entitled to but not yet receiving benefits | 1,252 |
| Active members | 3,480 |
| Total members | 6,361 |

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

*Pension Benefits.* Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Plan receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions. Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty-year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

In accordance with the directives of RPPL 5-7, the Board adopted a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution". In accordance with RPPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year. Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Plan. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

Currently, normal benefits are paid monthly and are two percent of each member's average monthly salary for each year of credited total service up to a maximum of thirty years' total service. The average annual salary is the average of the highest three consecutive fiscal years of compensation received by a member during his or her most recent ten full fiscal years of service. For members who have not completed three consecutive fiscal years of employment during his or her most recent ten full fiscal years of service, the average annual salary is the average monthly salary during the term of the member's service multiplied by twelve.

The benefit amount that married members or unmarried members receive, who have elected to designate a beneficiary, is based on the normal benefit amount reduced by the following factors:

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

| Factor | If the Spouse or Beneficiary is: |
|---|---|
| 1.00 | 21 or more years older than the member |
| 0.95 | 16 to 20 years older than the member |
| 0.90 | 11 to 15 years older than the member |
| 0.85 | 6 to 10 years older than the member |
| 0.80 | 0 to 5 years younger than the member or 0 to 5 years older than the member |
| 0.75 | 6 to 10 years younger than the member |
| 0.70 | 11 to 15 years younger than the member |
| 0.65 | 16 or more years younger than the member |

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit pursuant to RPPL 9-2.

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced according to the following schedule based on the age at which early retirement benefit payments begin:

- $1/12^{th}$ per year for the first 3 years before age 60;
- plus an additional $1/18^{th}$ per year for the next 3 years;
- plus an additional $1/24^{th}$ per year for the next 5 years; and
- plus an additional $1/50^{th}$ per year for each year in excess of 11 years.

Upon the death of a member or former member with eligible survivors before commencement of the members' normal, early, or late retirement benefits or disability retirement benefits the following shall be payable:

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.

- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

Upon the death of a member or former member before commencement of his normal, early, or late retirement benefit or disability retirement benefit leaving no persons eligible for survivor benefits, the following shall be payable:

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.

- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

*Member Contributions.* Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than fifteen years' membership service may elect to receive a refund of all of his or her contributions. Subsequent changes in the percentage contributed by members may be made through an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Plan through payroll deduction.

*Employer and Other Contributions.* Employers are required to contribute an amount equal to that contributed by employees. Pursuant to RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic of Palau must from time to time contribute additional sums to the Plan in order to keep the Plan on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Plan equal to the amount contributed by each and every employee of ROP. Additionally, an excise tax of four percent (4%) is levied against each non-citizen person transferring money out of ROP. The money transfer tax must be remitted to the Plan.

PVA's contribution to the Plan for the years ended September 30, 2020 and 2019 were $14,954 and $14,767, respectively, which were equal to the required contributions for the respective years then ended.

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of September 30, 2019, for the same measurement date using the following actuarial assumptions:

| | |
|---|---|
| Actuarial Cost Method: | Normal costs are calculated under the entry age normal method |
| Amortization Method: | Level dollar, open with remaining amortization period of 30 years |
| Asset Valuation Method: | Market Value of Assets |

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

| | |
|---|---|
| Investment Income: | 6.74% per year, net of investment expenses, including price inflation |
| Price Inflation: | 2.5% |
| Interest on Member Contributions: | 5.0% per year |
| Salary Increase: | 3.0% per year |
| Expenses: | $300,000 each year |
| Mortality: | RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years |
| Termination of Employment: | 5% for ages 20 to 39; none for all other ages |
| Disability: | |

| Age | Disability |
|---|---|
| 25 | 0.21% |
| 30 | 0.18% |
| 35 | 0.25% |
| 40 | 0.35% |
| 45 | 0.50% |
| 50 | 0.76% |
| 55 | 1.43% |
| 60 | 2.12% |

| | |
|---|---|
| Retirement Age: | 100% at age 60 |
| Form of Payment: | Single: Straight life annuity; Married: 100% joint and survivor |
| Marriage Assumption: | 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member. |
| Duty vs Non-duty related disability: | 100% Duty related |
| Refund of Contributions: | 80% of terminated vested members elect a refund of contributions |

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

*Investment Rate of Return*

The long-term expected rate of return on Plan's investments of 6.74% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of September 30, 2019, the arithmetic real rates of return for each major investment class are as follows:

| Asset Class | Target Allocation | Expected Rate of Return |
|---|---|---|
| US Large Cap Equity | 10% | 8.70% |
| US Large Cap Growth Equity | 10% | 9.13% |
| International Equity | 15% | 9.19% |
| Emerging markets | 10% | 12.52% |
| US Aggregate Fixed Income | 35% | 3.82% |
| Global Broad Fixed Income | 10% | 3.40% |
| Global REIT | 10% | 8.33% |
| | 100% | |

*Discount Rate*

The discount rate used to measure the total pension liability was 2.85% at the current measurement date from 4.16% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2024 for the 2019 measurement date. For years on or after 2024, a discount rate of 2.81% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index Rate.

*Sensitivity of Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of PVA, calculated using the discount rate of 2.85%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.85%) or 1.00% higher (3.85%) from the current rate.

| 1% Decrease 1.85% | Current Single Discount Rate Assumption 2.85% | 1% Increase 3.85% |
|---|---|---|
| $ 1,478,005 | $ 1,270,443 | $ 1,098,748 |

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

*Pension Liability.* At September 30, 2020 and 2019, PVA reported a liability of $1,270,443 and $1,111,286, respectively, for its proportionate share of the net pension liability. PVA's proportion of the net pension liability was based on the projection of PVA's long-term share of contributions to the Plan relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other government agencies, actuarially determined. At September 30, 2020 and 2019, PVA's proportion was 0.4118% and 0.4430%, respectively.

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:

*Pension Expense.* For the years ended September 30, 2020 and 2019, PVA recognized pension expense of $93,908 and $67,593, respectively.

| | 2020 | 2019 |
|---|---|---|
| Pension contribution | $ 14,954 | $ 14,767 |
| GASB 68 adjustment | 78,954 | 52,826 |
| | $ 93,908 | $ 67,593 |

*Deferred Outflows and Inflows of Resources.* At September 30, 2020 and 2019, PVA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | $ 64,607 | $ 49,529 | $ 87,635 | $ 16,594 |
| Change of assumptions | 263,658 | 115,820 | 99,361 | 153,390 |
| Net difference between projected and actual earnings on pension plan investments | 3,533 | 3,016 | 3,163 | 4,843 |
| PVA 's contributions subsequent to measurement date | 14,954 | - | 14,767 | - |
| Changes in proportion and difference between PVA's contributions and proportionate share of contributions | 227,409 | 140,019 | 272,620 | 117,201 |
| | $ 574,161 | $ 308,384 | $ 477,546 | $ 292,028 |

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2020 will be recognized in pension expense as follows:

| Year ending September 30, | |
|---|---|
| 2021 | $ 43,316 |
| 2022 | 46,377 |
| 2023 | 49,709 |
| 2024 | 43,562 |
| 2025 | 50,083 |
| Thereafter | 17,776 |
| | $ 250,823 |

## (4) Capital Assets

Capital assets of PVA as of September 30, 2020 and 2019, are summarized below:

| | Estimated Useful Lives | Balance at October 1, 2019 | Additions | Deletions | Balance at September 30, 2020 |
|---|---|---|---|---|---|
| Building | 20 years | $ 143,122 | $ - | $ - | $ 143,122 |
| Furniture, fixtures and equipment | 1 - 10 years | 156,131 | 28,975 | (1,099) | 184,007 |
| Building improvements | 15 years | 48,970 | - | - | 48,970 |
| Vehicles | 3 - 5 years | 30,290 | 23,290 | (5,295) | 48,285 |
| | | 378,513 | 52,265 | (6,394) | 424,384 |
| Less accumulated depreciation | | (310,139) | (27,049) | 6,394 | (330,794) |
| | | $ 68,374 | $ 25,216 | $ - | $ 93,590 |

| | Estimated Useful Lives | Balance at October 1, 2018 | Additions | Deletions | Balance at September 30, 2019 |
|---|---|---|---|---|---|
| Building | 20 years | $ 143,122 | $ - | $ - | $ 143,122 |
| Furniture, fixtures and equipment | 1 - 10 years | 153,948 | 9,405 | (7,222) | 156,131 |
| Building improvements | 15 years | 48,970 | - | - | 48,970 |
| Vehicles | 3 - 5 years | 30,290 | - | - | 30,290 |
| | | 376,330 | 9,405 | (7,222) | 378,513 |
| Less accumulated depreciation | | (297,682) | (19,679) | 7,222 | (310,139) |
| | | $ 78,648 | $ (10,274) | $ - | $ 68,374 |

## (5) Commitment and Contingency

### COVID-19 Pandemic

Economic uncertainties have arisen as a result of the COVID-19 pandemic and this matter has negatively impacted ROP, PVA's sole financial provider. PVA is dependent on ROP's financial support to fund its operations. The continuing effect of the pandemic is uncertain and future available funding to ROP component units may be limited. Therefore, while PVA expects this matter to potentially have a negative impact on its operations and financial position, the related financial impact cannot be reasonably estimated at this time.

## (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) Related Party Transactions

For years ended September 30, 2020 and 2019, PVA received a cash subsidy of $1,426,000 and $1,881,000, respectively, from ROP for the purpose of funding its operations.

During the year ended September 30, 2020, the Chairman of the Board of PVA was appointed as Co-chair of the Temporary Workforce Coordinating Committee responsible for the implementation of the Pandemic Re-employment Program (PREP) pursuant to RPPL 10-56 Coronavirus Relief One-Stop-Shop (CROSS) Act and PVA was an implementing agency of the PREP. PVA received $800,000 of PREP funding from ROP during the year ended September 30, 2020. At September 30, 2020, the undisbursed amount of $308,445 is outstanding and is reported as due to ROP in the accompanying statements of net position.

# PALAU VISITORS AUTHORITY
## (A Component Unit of the Republic of Palau)

Required Supplemental Information
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

| | 2019 Valuation | 2018 Valuation | 2017 Valuation | 2016 Valuation | 2015 Valuation | 2014 Valuation | 2013 Valuation |
|---|---|---|---|---|---|---|---|
| Civil Service Pension Trust Fund (Plan) total net pension liability | $ 308,480,463 | $ 250,868,784 | $ 259,395,005 | $ 249,453,960 | $ 215,546,176 | $ 204,281,232 | $ 182,080,332 |
| PVA's proportionate share of the net pension liability | $ 1,270,443 | $ 1,111,286 | $ 797,733 | $ 847,946 | $ 785,542 | $ 774,226 | $ 808,983 |
| PVA's proportion of the net pension liability | 0.4118% | 0.4430% | 0.3075% | 0.3399% | 0.3644% | 0.3790% | 0.4443% |
| PVA's covered employee payroll** | $ 246,117 | $ 259,900 | $ 178,167 | $ 180,022 | $ 176,744 | $ 178,199 | $ 185,614 |
| PVA's proportionate share of the net pension liability as a percentage of its covered employee payroll | 516.19% | 427.58% | 447.74% | 471.02% | 444.45% | 434.47% | 435.84% |
| Plan fiduciary net position as a percentage of the total pension liability | 8.26% | 10.24% | 10.18% | 10.55% | 11.54% | 14.01% | 15.84% |

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See accompanying Independent Auditors' Report.

## PALAU VISITORS AUTHORITY
## (A Component Unit of the Republic of Palau)

Required Supplemental Information
Schedule of Pension Contributions
Last 10 Fiscal Years*

| | 2019 Valuation | 2018 Valuation | 2017 Valuation | 2016 Valuation | 2015 Valuation | 2014 Valuation | 2013 Valuation |
|---|---|---|---|---|---|---|---|
| Actuarially determined contribution | $ 58,031 | $ 76,694 | $ 52,825 | $ 49,005 | $ 39,724 | $ 40,269 | $ 44,722 |
| Contribution in relation to the actuarially determined contribution | 14,767 | 15,594 | 10,690 | 10,654 | 10,535 | 10,493 | 11,179 |
| Contribution deficiency | $ 43,264 | $ 61,100 | $ 42,135 | $ 38,351 | $ 29,189 | $ 29,776 | $ 33,543 |
| PVA's covered-employee payroll** | $ 246,117 | $ 259,900 | $ 178,167 | $ 180,022 | $ 176,744 | $ 178,199 | $ 185,614 |
| Contribution as a percentage of covered-employee payroll | 6.00% | 6.00% | 6.00% | 5.92% | 5.96% | 5.89% | 6.02% |

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See accompanying Independent Auditors' Report.