

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Visitors Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Palau Visitors Authority (PVA), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2018 and 2017, 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.

Auditor's 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 audits 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 the Palau Visitors Authority as of September 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 22 as well as the Schedule of Proportional Share of the Net Pension Liability on page 38 and the Schedule of Pension Contributions on page 39 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 May 14, 2019 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 Fund's internal control over financial reporting and compliance.

Deloitte Touche LLC

May 14, 2019



Management's Discussion and Analysis Year Ended September 30, 2018

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 fisheries and agriculture.

To achieve this, PVA undertakes the role of the country's tourism authority whose position is to be a visionary and present a strong image of Palau as a special destination appealing to discerning, high spending and environmentally conscientious clientele. To this end, PVA invests approximately 50% of its annual budget on marketing and promotion activities.

At the local level, PVA is responsible for generating awareness and understanding of tourism to all segments of the community in Palau 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 managed by a seven-member Board of Directors appointed by the President, with the advice and consent of the Senate, to serve two-year terms and whose primary duties is 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 interest 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 four main operational areas within the PVA structure under the Managing Director and Operations and Program Director: 1) Human Resources, 2) Strategic Planning, 3) State and Community and, 4) Marketing and Programs. There are currently eighteen full-time and three part-time airport employees and one contracted staff.

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.

Palau Visitors Authority

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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:

1. Ensure the development of tourism strategies to be adopted by the National Government;
2. Turn PVA into a pure marketing body of ROP that is to be recognized internally and externally as one of the most aspirational destinations behind the new branding "Pristine Paradise. Palau";
3. Seek flexibility and potential extra funding by pursuing a legal entity change from semi-government to a nonprofit organization;
4. Train and develop PVA employees to their fullest potential so that PVA will be a self-sufficient and sustainable organization;
5. Define the role of PVA and the newly developed Board of Trustees in order to deliver tangible and unique contributions; and
6. Continue to improve the recording and accountability of budgetary and financial transactions to ensure full compliance with laws and regulations and generally accepted accounting standards.

Fiscal Year Objectives:

PVA provides monthly visitor analysis and works with the Office of Budget and Statistics to provide an in-depth assessment of the industry trends and economic activities of ROP.

1. Visitor Analysis: The tourism industry is extremely vulnerable. For Palau, 2018 was no exception. China Airlines reduced their flights in December. Air Explorer (PPA) ceased operations in Palau. In January 2018, ROP began collecting the \$100 entry fee into Palau. We saw a declining trend beginning in 2016 due to the drought and its effect on Jellyfish Lake and continuing through 2017 and 2018. The increase in package tours from 2015 is still a factor in losing the European, Taiwan, South Korea, U.S./Canada and Japan markets. Also, there were chartered airlines that discontinued services to Palau. The charter airline services are responsible for 43% of our visitors.
2. The 2018 investment in TripAdvisor indicated a slight increase in tourism and traffic to our website.
3. In 2017, the People's Republic of China (PRC) government banned packaged tour sales to all markets without an approved destination status, directly affecting some operators. Throughout 2017, 2018 and continuing in 2019, the trend is slower but there have been efforts to bring in free independent travelers (FIT) via secondary ports such as Macau, Korea, Taiwan and Japan.
4. European blogs are still talking about the influx of Chinese tourists.
5. A majority of Korean tourists are visiting Guam and Saipan. Travel agencies in Taiwan block seats in China Airlines to Palau preventing FITs from booking.

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

6. The Japan market has been hurt with Delta Airlines canceling flights, indicating a recession, as exchange rates are low.
7. Overall visitor numbers dropped by 13.28% versus 2017, or 122,582 versus 106,303. We need to find the right balance of diversifying markets in order to be sustainable instead of heavily relying on one market source.
8. By Market Trend: China is still the number one sourcing market at 50,491 (43.30% market share). Traditional key markets declined including Japan at 24,437 (21.07% market share), Korea at 12,872 (11.10% market share), ROC Taiwan at 11,354 (9.79% market share), USA/Canada at 8,394 (7.24% market share), Europe at 4,486 (3.87% market share) and others at 4,210 (3.63% market share).
9. Revenue per Visitor: Fiscal year 2018 (October 2017 to September 2018) decreased by 9% at \$1,009 per visitor versus \$1,019 in fiscal year 2017 (October 2016 to September 2017).

Marketing and Community Programs Department (Key Performance Indicators)

Tradeshows - PVA made strategic choices of which shows to participate in on the basis of maturity of the market and market presence from Palau and the level of participation by our key industry partners. PVA weighs more for newer markets (e.g. PRC) and high value segments (diving, sports fishing and bird watching) where we add value by presenting Palau. PVA attended annual tradeshows in target markets including PRC, Japan, South Korea, North America, Europe and Asia Pacific. PVA strategically makes choices to utilize each trade show as a different opportunity and we position them as great networking venues, which saves cost when key parties gather at one venue with the same objectives. There are three categories of tradeshows, including:

- Exhibitor: Attending trade shows with PVA as an exhibitor, with a booth, staff and promotional materials. There are also instances of incorporating traditional dance groups, carvers, or weavers into the exhibition as a display of Palauan culture.
- B2B: Also known as Business to Business, there are opportunities to meet with trade, media and related key stakeholders. In addition, some of these B2B shows provide sellers with the opportunity to pre-request appointments.
- PATA-related meetings: The Pacific Asia Travel Association (PATA) is a not-for-profit association that is internationally acclaimed for acting as a catalyst for the responsible development of travel and tourism to, from and within the Asia Pacific region. PVA is both an International and Micronesia chapter member. PATA holds annual events such as travel marts (exhibitor/B2B), training, Micronesia chapter meetings, annual summits (conference/exhibitor) and responsible tourism conferences. PVA participates in many of these events throughout the year.

| | <u>No. of Tradeshows</u> | <u>No. of Total Visits</u> | <u>Trade Visits*</u> | <u>Consumer Research**</u> |
|----------------------------|--------------------------|----------------------------|----------------------|----------------------------|
| B2B | 5 | 417,500 | 4 | 4 |
| B2C (business to consumer) | 11 | 955,524 | 0 | 1 |

* Trade visits: PVA to meet travel agents for opportunities/planning

** Consumer research: PVA to conduct direct interviews/focus groups/surveys

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

In the future, we will establish a process to count the number of visitors to our booths so we can evaluate direct effectiveness.

- PATA programs - engaging key industry influencer and access to database:

| | <u>No. of Tradeshows</u> | <u>No. of Total Visits</u> |
|-----|--------------------------|----------------------------|
| B2B | 4 | 200 |

- PATA provides aligned advocacy, insightful research and innovative events to its member organizations, comprising ninety-five government, state and city tourism bodies, twenty-nine international airlines, airports and cruise lines, sixty- three educational institutions and hundreds of travel industry companies in Asia Pacific and beyond. PVA is a member of the main body and the Micronesian chapter. We also have access to an industry database, Waterpower, and other industry partners' research. PVA is using Waterpower for marketing and analysis purposes to offset resource gaps.

One of PVA's biggest achievements was the visit of Dr. Mario Hardy, Chief Executive Officer of PATA, to Palau in May 2016. Through this effort, we pitched our upcoming 2017 New Frontier Forum to be hosted in Palau to have the opportunity to showcase the "hidden jewelry" of tourism products. We expect 250 to 300 tourism experts to visit Palau and help prepare the next "market ready" products.

- Familiarization (FAM) Tours and Agent Meetings: FAM tours were also organized by PVA including overseas representation by soliciting partnerships and sponsorships from our key industry stakeholders in order for media to get maximum exposure and travel agents to learn about destination knowledge. Fiscal year 2018 FAM trips were mainly conducted from Japan and two from Taiwan. We will continue to evaluate our FAM system and budget allocations due to increasing challenges with airfare support, talent fee for social media influencers, media and filming production companies.
- Digital Marketing: PVA has three main social media accounts, namely Facebook, Instagram and YouTube. There are two accounts for Facebook, one for local events and information, another for targeted postings of news, video, images or stories designed to entice potential visitors to Palau. For the Instagram account, there exists an opportunity for viewer content to be publicized through the **#visitpalau** postings. The YouTube page is set-up as Pristine Paradise. Palau and contains various videos from the Night Markets, especially made PVA promotional videos and videos shared by visitors to Palau.

The PVA website (www.pristineparadisepalau.com) has been upgraded in fiscal year 2018 for a fresher look and easier navigation. Palau is also featured in the www.micronesiatours.com website, which is part of Magnificent Micronesia, a Micronesian islands regional co-promotion.

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

Social Media

With growing shift in media from traditional means to viral and consumer generated contents, PVA is putting more strategic effort and importance on social media platform.

Objective: Showcase Palau’s attractions and PVA’s activities to increase interest in Palau.

Strategy:

- Work with digital savvy destination management consultants to manage contents with a small budget effectively;
- Define target clearly (diving, bird watching, sporting events) to effectively reach online communities overseas;
- Use the social media platform with our community-based activities (contests) to increase “likes” or engagement of our page (Palau); and
- Manage contents frequently to invite users to our page.

| | Facebook Statistics | | Verifiable Indicator |
|-------------------------------|---------------------------|---------|--|
| | FY 2018 | FY 2017 | |
| Followers | 7,858 | 4,726 | Increased by 3,132; increased page productivity |
| Total posts | 250 | 110 | Improved posts to include live videos and local events |
| Reach | 354,748 | 967,363 | Number of postings decreased number of reach |
| Total post likes | 14,487 | n/a | |
| Total post shares | 1,036 | n/a | |
| | Website Statistics | | Newspaper (Local) FY 2018 |
| Page views | 400,895 | 137,467 | Increased 263,428; new website design and new content |
| Total visitors | 106,970 | 94,204 | Increased 12,766 |
| Monthly average of page views | est 33,408 | 5,000 | |



Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

Social Media, Continued



Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

Social Media, Continued

Charts indicate an increase of 3,132 followers over fiscal year 2018. By the end of fiscal year 2018, Pristine Paradise. Palau's Facebook page had 7,858 followers. A total of 250 posts were published on Pristine Paradise. Palau's Facebook page, and there was a total of 14,487 "likes" and 1,036 "shares".

| | | | | | |
|------------------------|---|--|---|------|-------------|
| 03/30/2018 8:42 AM |  Learn about turtles in Pristine Paradise Palau Thank You Milos Prelevic Photography for always capturing Palau at its best! |  |  | 662 | 17 39 |
| 03/30/2018 8:26 AM |  Heres another way of discovering the Pristine Paradise Palau! 🌟🌳🏠 |  |  | 2.4K | 230 151 |
| 03/27/2018 2:03 PM |  Dive with the friendly Mantas of Palau |  |  | 1.1K | 94 40 |
| 03/27/2018 12:22 PM |  After a whole day of juggling work and your passion, its always nice to paddle into the sunset 🌅 in Pristine Paradise |  |  | 849 | 77 39 |
| 03/26/2018 11:34 AM |  Here are the top things to do in Palau written by famous youtube vlogger Lilian Pang Film & Photography Thank You |  |  | 1.4K | 55 49 |
| 03/24/2018 7:42 AM |  Welcome All Visitors Enthusiastically |  |  | 1.4K | 171 67 |
| 03/22/2018 8:50 AM |  FOREVER YOUNG IN YOUTH WEEK The FOREVER YOUNG Night Market on March 16th, held at Ernguul Central |  |  | 1.2K | 153 13 |
| 03/21/2018 5:37 PM |  Third day for the W.A.V.E program with these awesome students from Ngeremlengui, Ngardmau and Koror |  |  | 893 | 95 34 |
| 03/21/2018 5:14 PM |  Third day of W.A.V.E program at Ulong Island with 8th grade students from Ngeremlengui, Ngardmau, and Koror |  |  | 7.6K | 2.5K 515 |
| 03/20/2018 5:28 PM |  Day two on our W.A.V.E Program 2018 and it was #Funtastic! |  |  | 1.7K | 249 59 |

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

Social Media, Continued







| | | | | | | | |
|------------------------|--|--|---|--------|---|---------------|---|
| 08/20/2018 10:41 AM |  When it comes to beautiful backdrops.. Palau will never fail you.. 😍😍 Lovely photo!! Congratulations 🏝️ Palau wishes |  |  | 2.8K | | 125 83 | |
| 08/18/2018 10:21 AM |  Weekend vibes 🌴 Hit Like/Love if you wish you were in Palau right now 😊📷: @bluemarlin_palau #visitpalau |  |  | 713 | | 16 22 | |
| 08/16/2018 6:39 PM |  "Fish for days.... Ulong Channel drift dive"... 📷 IG: @lozzletov Experience the thrill of Ulong Channel and |  |  | 1.3K | | 13 23 | |
| 08/16/2018 2:31 PM |  Check out this glimpse of your 🌴🌴 Pristine Paradise Palau 🌴🌴 #visitpalau #island #paradise or check out our website |  |  | 2.3K | | 78 20 | |
| 08/15/2018 3:00 PM |  Last week Korean celebrity couple Kim Tae Hee and Rain enjoyed Palau's tropical beaches and island paradise lifestyle. |  |  | 165K |  | 22.3K 1.4K |  |
| 08/15/2018 2:30 PM |  Magical ✨ So much to explore and discover in 🌴🌴Pristine Paradise Palau 🌴🌴 #bioluminescence #visitpalau #island |  |  | 1.4K | | 23 19 | |
| 08/14/2018 1:04 PM |  🌴🌴 When you have a bad day, a waterfall is the best solution 🌴🌴 📷 IG @evelynnyee |  |  | 3K | | 217 159 | |
| 08/14/2018 12:41 PM |  Pristine Paradise Palau added a cover video. |  |  | 12K | | 3.1K 387 |  |
| 08/10/2018 8:59 AM |  Received our first KONQER registration form!! A huuuge S/O to our Legal Counsel of the House of Delegates, Alanna for |  |  | 1.4K | | 49 15 | |
| 08/09/2018 4:30 PM |  Register early for "Konqer" at Palau Visitors Authority office down in Medalaii for a chance to attend the "Konqer" pre- |  |  | 110.3K |  | 357 11.2K |  |

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

Social Media, Continued

| | | | | | |
|------------------------|---|--|---|-------|--------------|
| 11/01/2017 3:55 PM |  How would you react if you saw Wild Dolphins on your trip to Pristine Paradise Palau? (Comment below) Video by |  |  | 1.4K | 6 17 |
| 10/21/2017 6:18 PM |  Amazing view of Pristine Paradise Palau! #island #paradise #visitpalau #vacay #heavenonearth |  |  | 1.9K | 182 61 |
| 10/17/2017 4:30 AM |  Learn how to ride a Palau Warrior Canoe with real warriors teaching you their skills in paddling. Photo by Kambes Kesolei |  |  | 470 | 16 16 |
| 10/16/2017 10:28 AM |  When the water is this pristine you could discover beautiful creatures like this Nautilus. Video by LDA Dive Travel |  |  | 419 | 18 14 |
| 10/13/2017 12:32 PM |  Palau's history can be felt through some of these amazing WWII sites in Peleliu! Photo by: IMPAC Tours |  |  | 559 | 19 32 |
| 10/06/2017 12:51 PM |  🌈 Rainbow over Palau's Ngardmau Falls, making it that little bit more magic! Photo: simonmcneish via Instagram |  |  | 798 | 39 61 |
| 10/05/2017 6:59 PM |  Greetings from the Ulong Channel. It's no surprise that this piece of Palau paradise is regarded as one of the best drift |  |  | 2.3K | 183 178 |
| 10/03/2017 2:14 PM |  "You literally can walk forever in knee high crystal clear water watching little colorful 🐠🐡 swimming around your feet!" |  |  | 87.1K | 4.1K 4.2K |

Channel 37 (Local Cable TV)

Objective: Introduce Palau's attractions and general activities to visitors and locals.

Strategy:

- Utilize both in-house and outside contents to provide a broad coverage of programs;
- Focus on signature events, traditional and cultural, and diving/ocean related events to keep our competitive edge;
- Proactively work with overseas production or travel content agents to maximize exposure; and
- Produce transparent perspectives of Palau's local activities, PVA tradeshows and more of Palau's attractions not too familiar to visitors.

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

Sports Marketing

PVA promoted and assisted the following:

- Konger
- Triathlon
- Marathon
- Etpison Cup
- Micro Cup
- Wahoo Classic
- Open swimming events

Local Newspaper (Ad Value)

Objective: Showcase and introduce PVA's activities especially to local key stakeholders.

Strategy:

- Maximize exposure via press releases to take advantage of free media; and
- Position PVA to be one of the aspiring working environments for the young Palauan community.

| | <u>Newspaper (Local) FY 2018</u> | <u>Newspaper (Local) FY 2017</u> |
|---------------|----------------------------------|----------------------------------|
| # of articles | 74 | 34 |
| Other ads | 18 | n/a |
| Ad Value | \$ 11,648 | \$ 5,000 |

Review of our Media Touch Points

- 1) **Website:** PVA's website only provides information and we will propose to upgrade user-ability, contents and compatibility with an SNS platform in the next fiscal year.
- 2) **Social media platform:** We completed an audit of our Social Media Platform target profiling and community opportunities. Our consultant, Destination Think! team, proposed for a few individuals who would act as "key influencers" for our key segments (diving and bird watching). As a result, the Rock Jumper Tour Group visited Palau in August and scheduled a tour in May 2018.
- 3) **Local media:** Our focus on social media has grown immensely. Therefore, based on much evaluation, Channel 37 will be forgone in fiscal year 2019. Radio stations were heavily utilized due to the fact that we had more programs and activities that we wanted the local community and relevant agencies to be aware of. In fiscal year 2018, we spent \$6,540 on local radio and TV stations.

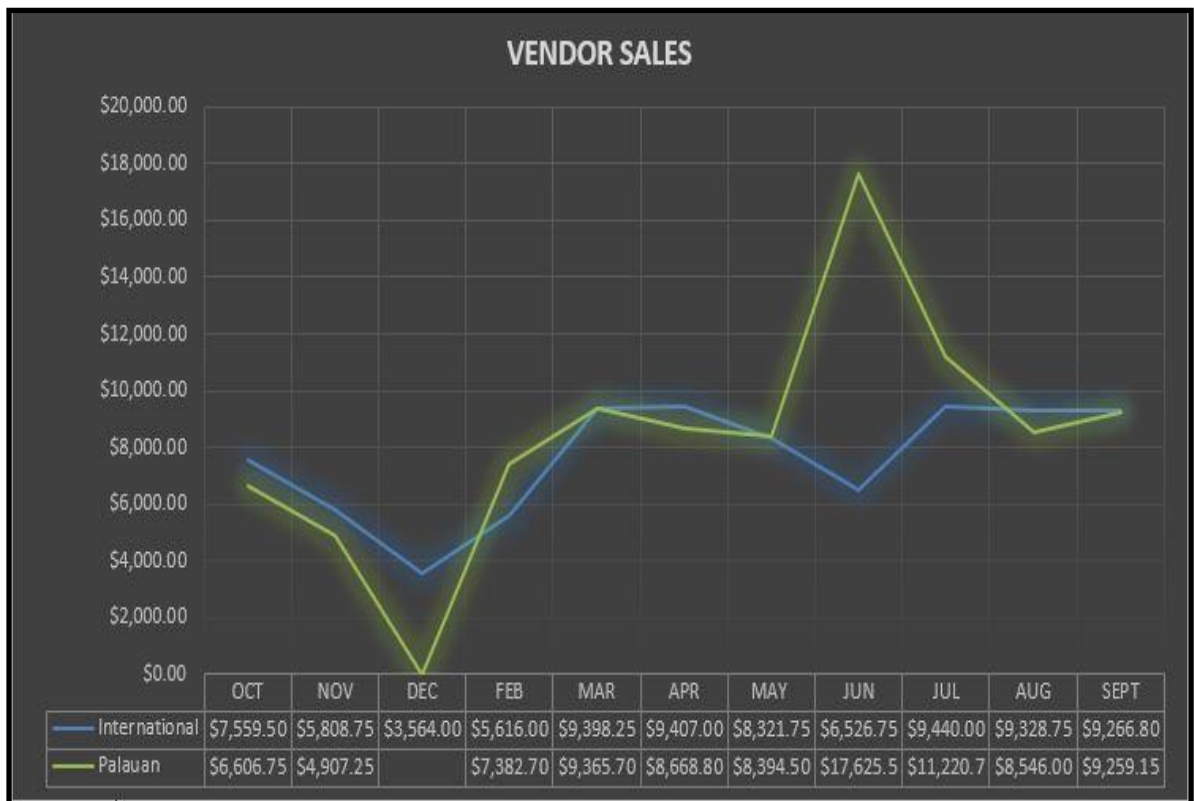
Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

Review of our Media Touch Points, Continued

- 4) **Night markets:** The PVA Night Markets are intended to provide night activity for visitors and locals alike. It also serves as a venue for local entrepreneurs and established businesses to sell locally made products such as food, jewelry and handicrafts. The Night Market has been a marked event for families and tourists, and it is an opportunity for local people to mingle with our visitors from different countries. Throughout the year, the night market has featured different organizations to help them fundraise for their activities and programs. In addition, we have included side activities such as weaving demonstrations, carving, coconut husking, face painting and kids' games.

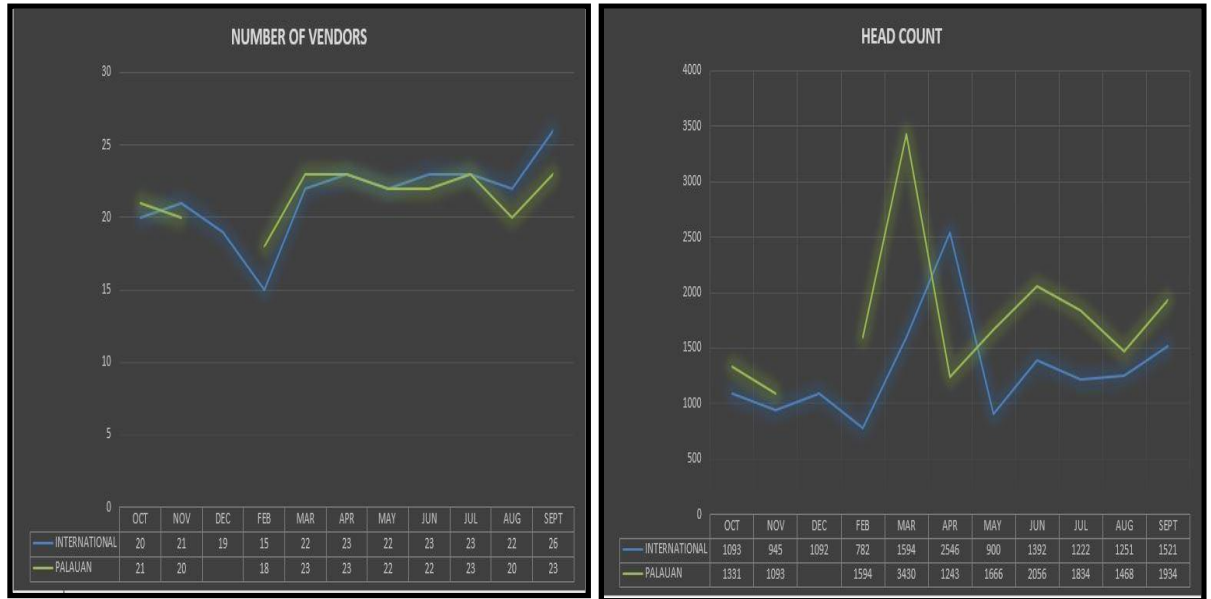


Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

Review of our Media Touch Points, Continued



**Annual Vendors Earnings:
 \$145,804.28 No. of Vendors:
 457
 Head Count: 30,315
 Total Cost: \$70,572.62**

Community Programs: PVA State Tourism Representatives

A sixteen-member body of PVA State Tourism representatives from the sixteen States of ROP works closely with the Marketing and Community Department in promoting the tourism industry in their respective States. They are PVA’s eyes, ears and link to the States. PVA and the State Tourism representatives meet once every two months; six times a year at the PVA conference room to update new tourism developments in the States, to share ideas and concerns related to tourism and to explore ways on how the States can better benefit from the tourism industry. State Tourism representatives are appointed by State Governors and are very important partners for PVA in many ways especially in promoting the States during night markets and other marketing activities (total cost \$952).

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

Community Programs: PVA State Tourism Representatives, Continued

| State | Governor | State Representative |
|-------------------|-------------------------|-----------------------------|
| Airai State | Tmewang Rengulbai | Collins Takeo |
| Ngchesar State | Florencio Adelbai | Chubby Mai |
| Melekeok State | Henaro Polloi | Lomalinda Gabriel |
| Ngiwal State | Ellender Ngirameketii | Lorraine Kloulubak |
| Ngaraard State | Benjamin Iskawa | Tereked Dwight |
| Ngarchelong State | Browny Salvador | Imengel Mai |
| Ngermengu State | Mary Frances Remengesau | Pola Franz |
| Ngardmau State | Renguul Masahiro | Peggy Hanser |
| Ngatpang State | Jersey Iyar | Jennifer Emiwo |
| Aimeliik State | Demei Obak | Manges Siksei/Dillomes |
| Koror State | Franco Gibbons | Leslie Tewid |
| Kayangel State | Midas Ngiracheluolu | Blodak Inawo Quichocho |
| Peleliu State | Temmy Shmull | Tangy Hesus |
| Angaur State | Kenneth Uyehara | Lori Blau |
| Sonsorol State | Laura I. Miles | N/A |
| Hatohobei State | Fuana K. Nestor | N/A |

One Stop Shop

PVA, Airai State and Ngarairrai established a cooperative relationship through mutual support and collaboration, to wit: through the establishment of a One Stop Shop program (hereinafter "One Stop Shop"), providing a convenient service for tourists to pay one fee to visit designated tourist sites in Airai State. The tour includes Bai ra Rengarairrai, Diangel/Kabekel and Chades ra Mechorei with a local style buffet. PVA also helped provide training for Airai State tour guides who handle all tours to Airai State. Development includes renovation of the existing bus stop to the tour guide office, renovation of existing bathrooms to include new toilets, sinks, urinals and outside painting, clearing and cleaning surrounding areas of the Bai and restore all stone paths leading to the Bai (total cost \$41,856).

State Development Program

Ngaraard State Youth Program: Ngebuked Hamlet of Ngaraard State requested assistance from PVA to help with trash and recycle bins for Ngebuked Hamlet. The purpose of this program is to place recycle bins in each hamlet of Ngebuked to collect bottles and cans to sell and use the money to fund youth programs and activities. PVA was able to fund this project (total cost \$1,284).

Angaur State Development: The Uab men's club of Angaur asked PVA to assist with construction of a tourist resting hut and picnic area. PVA was able to provide some construction materials to complete the project (total cost \$1,169).

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

Greetings/Welcoming

PVA conducted greeting and welcoming services for the following ships, which visited Palau:

- Silver Discoverer (October) - 139 pax
- Caledonia Sky (March) - 175 pax
- Ocean Dream (March) - 496 pax
- Silver Discoverer (May) - 174 pax

PVA also extends its greeting and welcoming services to special guests of ROP including conferences, workshops and meetings held in Palau (total cost \$8,081).

WAVE (Welcome All Visitors Enthusiastically)

PVA is pleased to announce the successful completion of the WAVE! (Welcome All Visitors Enthusiastically!) Program from March 19 - 23, 2018 at Ulong Island, the Rock Islands Southern Lagoon and two popular tourist sites. In postcard weather, eighth grade students from private and public elementary schools were given tours and presentations at Ulong Island with PVA and partners, including Koror State, Friends of Palau National Marine Sanctuary and the Palau Conservation Society. The intention of the WAVE! week was to hold activities that aimed to enhance the understanding and promote the importance of the tourism industry to the young children of Palau, thus instilling the concept of welcoming all visitors enthusiastically in their minds and hearts. PVA believes that notions learned in the early years will be carried over into adulthood; this ideology is the backbone of the WAVE! Program.

Today's young children are the safe-keepers of Palau's future and therefore, it is most important to invest time and effort in teaching them to love, to preserve and to protect the resources and people in this country. Activities on Ulong Island included trail walks to the Captain Wilson monument to explain the history of Captain Henry Wilson, whose vessel, the Antelope, was shipwrecked on a nearby reef in 1783, and how Ibedul and the people of Koror assisted Captain Wilson and the crew to rebuild their ship. The Koror State Cultural Affairs representatives explained two important cultural sites on Ulong, the Stone Wall (ewatel) which was used to protect the people from Ulong during war or storms, and the water hole, which was built to collect fresh water. PVA's activities included creating the biggest WAVE! line in WAVE! history, and PVA also conducted games and discussions about sustainability of the tourism industry. The students also had the opportunity to visit two famous tourist sites on the return to Koror, the snorkeling site known as Cemetery, and the natural arch. In order to send a plastics-free message to the students, they were each given a stainless-steel reusable drinking container (total cost \$10,955).

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Marketing and Community Programs Department (Key Performance Indicators), Continued

Earth Day/Green Fair

In celebration of Earth Day, PVA conducted Green Fair activities from April 17 - 20, 2018 in conjunction with the Earth Day celebration. With this year's theme, "End Plastic Pollution", PVA is working closely with each State and other partner agencies to organize activities that will benefit the community as well as solutions to lessen the use of plastic materials and begin using local products. Activities included weaving workshops conducted by two experts from Irimote Island, Japan, Ms. Harumi Tokuoka and Mr. Kimimochi Hosi. The workshops were held at Ngardmau State Botanical garden which participants had the opportunity to learn how to harvest and weave Itochu (local fern). This annual event featured a plant contest, as well as booth displays and the sale of farming products and food. The plant contest featured two categories, the Ornamental Plant category, where contestants entered bougainvillea and the Medicinal Plant category, which sought after the best *rtertiil* plant. The winners of the Ornamental category were Kukong Sakaziro, 1st place; Romana Basilius, 2nd place; and Hiromi Asanuma, 3rd place. For the Medicinal category, Helen Moros won first place, Bessy Rechucher took 2nd place and Kukong Sakaziro came in 3rd place. First place winners in both categories received \$150, second place \$100, and third place \$75. PVA would like to thank Mr. Leonard Basilius, PCAA Coordinator of Food and Product and Employment Services, Dr. Aurora del Rosario, Researcher for the PCC-CRE Program and Mr. Yeh You-Chiou, Project Assistant of the Taiwan Technical Mission for donating their time and expertise to judge the plant contest. On hand to sell food were MJ Burger House, Johaina Eledui, Ekei Market and Palau High School Seniors. In addition, PCAA provided free home gardening tips and distributed free vegetable seeds. The Taiwan Technical Mission sold fresh vegetables and fruits and Mason's Hardware Do-it Center displayed and sold farming and gardening products. PVA would also like to thank the sponsors, whose contributions made the Green Fair possible. Mason's Hardware Do-it Center donated a bush cutter, Ace Hardware provided flower pots, vases and plant seeds, PNCC donated Airtime cards, Jezzrae contributed two \$25 gift certificates, the Palau Nature Conservancy provided umbrellas and T-shirts, the Taiwan Technical Mission provided one fruit basket and the Bank of Guam donated Bank of Guam tote bags. These contributions were given as raffle prizes during the full-day event (total cost \$9,441).

Beautification Programs

PVA continues to promote its beautiful Pristine Paradise. Palau through production of signage and stickers to remind ourselves to keep our island clean for us as well as tourists. Lak molub signage was distributed to all government agencies and private companies. Stickers in different sizes are PVA giveaways for events and programs. We also donated trash bags, gloves and other cleaning materials to various organizations and schools to support their clean-ups (total cost \$14,850).

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Strategic Planning Department

The Strategic Planning Department will assume responsibility of providing analytics and strategy development not only for PVA but also for ROP. As an NTO, we have access to various data and resources that are being capitalized. We will actively propose consumer and customer driven ideas, market assessments and solution-oriented action plans.

- Objectives

The Strategic Planning Department will provide analysis by utilizing available data, creating new research/surveys to showcase opportunities, conduct competitive assessments and consumer-driven ideas and actions.

- Market Assessment

The Strategic Planning team together with the Marketing team built up market intelligence. For 2018, PVA prioritized and invested to learn more about the biggest sourcing market, PRC. Through tradeshows and "market ready" training, we built up knowledge and capabilities to market into PRC and other countries.

- Monthly Visitor Stats Report: Released by the 10th of each month.

- A visitor and air access analysis was conducted to identify the need of comprehensive air access strategy development. There is 100% co-relationship between the number of flights and visitors. Hence, in order for Palau to be sustainable destination, it is recommended to evaluate today's carrier imbalance. Refer to chart below.

- Palau Entry Forms/OMR Scanner

The Palau Entry Forms (arrival forms) are a combined card of the Palau Customs Border Protection and PVA. Arrival forms are available in English, Japanese, traditional Chinese, simplified Chinese and Korean. All passengers are required to accurately provide information on both sides of the arrival form. Data scanned from the arrival forms are needed to generate reports that are interpreted, analyzed and are used to formulate options and recommendations to the Marketing Department (total cost \$80,000).

- TripAdvisor

A workshop was held with local businesses and representatives from TripAdvisor to go over how to market their company, list the company or attraction, how to bring people in, what travelers want to see, what to post and how to respond to positive and negative comments (total cost \$200,000).

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

Strategic Planning Department, Continued



- Pricing (cost of hotel room or package tour) and visitor trend analysis also indicates that there is a strong co-relation between pricing and the number of visitors. Pricing elasticity and visitor assessment is recommended for policy-making agencies.

Administration Department

- Encouraged compliance to PVA and ROP Procurement Policies to improve accounting procedures to warrant an unmodified audit opinion and no audit findings for PVA audits.

Funding

PVA receives its annual operational funding from the Unified Budget appropriation of the Olbil Era Kelulau. Its total budget for fiscal years 2018, 2017 and 2016 was \$1,426,000, \$1,426,000 and \$920,000, respectively. PVA's budget is allocated based on its main functions of authority as follows: 68% for marketing and community programs, 17% for administration, 10% for operations and 5% for Board of Directors programs.

Overview of Financial Statements

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|-------------------|
| Statements of Net Position: | | | |
| Current assets | \$ 414,836 | \$ 652,477 | \$ 328,508 |
| Capital assets | <u>78,648</u> | <u>76,864</u> | <u>76,946</u> |
| Total assets | 493,484 | 729,341 | 405,454 |
| Deferred outflows of resources from pension | <u>186,030</u> | <u>148,126</u> | <u>84,089</u> |
| Total assets and deferred outflows of resources | \$ <u>679,514</u> | \$ <u>877,467</u> | \$ <u>489,543</u> |
| Current liabilities | \$ 104,980 | \$ 109,085 | \$ 124,030 |
| Net pension liability | <u>797,733</u> | <u>847,946</u> | <u>785,542</u> |
| Total liabilities | 902,713 | 957,031 | 909,572 |
| Deferred inflows of resources from pension | <u>261,239</u> | <u>186,741</u> | <u>190,108</u> |
| Total liabilities and deferred inflows from resources | <u>1,163,952</u> | <u>1,143,772</u> | <u>1,099,680</u> |
| Net position: | | | |
| Net investment in capital assets | 78,648 | 76,864 | 76,946 |
| Unrestricted | <u>(563,086)</u> | <u>(343,169)</u> | <u>(687,083)</u> |
| Total net position | <u>(484,438)</u> | <u>(266,305)</u> | <u>(610,137)</u> |
| Total liabilities, deferred inflows from resources and net position | \$ <u>679,514</u> | \$ <u>877,467</u> | \$ <u>489,543</u> |

Statements of Revenues, Expenses and Changes in Net Position:

| | | | |
|-----------------------------------|---------------------|---------------------|---------------------|
| Operating revenues | \$ 46,996 | \$ 55,265 | \$ 42,724 |
| Operating expenses | <u>1,691,129</u> | <u>1,137,433</u> | <u>919,620</u> |
| Loss from operations | (1,644,133) | (1,082,168) | (876,896) |
| Nonoperating revenues | <u>1,426,000</u> | <u>1,426,000</u> | <u>920,000</u> |
| Change in net position | (218,133) | 343,832 | 43,104 |
| Net position at beginning of year | <u>(266,305)</u> | <u>(610,137)</u> | <u>(653,241)</u> |
| Net position at end of year | \$ <u>(484,438)</u> | \$ <u>(266,305)</u> | \$ <u>(610,137)</u> |

Statements of Cash Flows:

| | | | |
|--|-------------------|-------------------|------------------|
| Cash flows from operating activities | \$ (1,534,861) | \$ (1,237,505) | \$ (809,593) |
| Cash flows from noncapital financing activities | 1,426,000 | 1,646,000 | 831,751 |
| Cash flows from capital and related financing activities | <u>(20,192)</u> | <u>(23,334)</u> | <u>(21,223)</u> |
| Net (decrease) increase in cash | (129,053) | 385,161 | 935 |
| Cash at beginning of year | <u>463,371</u> | <u>78,210</u> | <u>77,275</u> |
| Cash at end of year | \$ <u>334,318</u> | \$ <u>463,371</u> | \$ <u>78,210</u> |

Financial Highlights:

1. ROP receivables amounted to \$2,343 in fiscal years 2018 and 2017 compared to \$222,343 in fiscal year 2016.
2. Employee receivables amounted to \$26,756 in fiscal year 2018 compared to \$15,578 in fiscal year 2017 and \$22,852 in fiscal year 2016. The increase is attributed to untimely submission and reconciliation of trip and travel expense reports.
3. The allowance for doubtful accounts amounted to \$5,180 in fiscal year 2018 compared to \$4,082 in fiscal years 2017 and 2016 due to improved procedures in evaluating collectibility.
4. Accounts payable amounted to \$25,535 in fiscal year 2018 compared to \$49,335 in fiscal year 2017 and \$59,624 in fiscal year 2016. The decrease was due to timely disbursement of monthly budgetary allotments from ROP.

Overview of Financial Statements, Continued

Financial Highlights, Continued:

5. At September 30, 2018, 2017 and 2016, PVA had net investment in capital assets of \$78,648, \$76,864 and \$76,946, respectively, net of accumulated depreciation where applicable, including building, building improvements, furniture, fixtures and equipment and vehicles. The increase was due to additions of furniture, fixtures and equipment. See note 4 to the financial statements for more detailed information on PVA's capital assets.
6. Total net position amounted to \$(484,438) in fiscal year 2018 compared to \$(266,305) in fiscal year 2017 and \$(610,137) in fiscal year 2016 which is primarily attributed to GASB 68 requirements.
7. Operating revenues amounted to \$46,996 in fiscal year 2018 compared to \$55,265 in fiscal year 2017 and \$42,724 in fiscal year 2016 from collection of contributions from local tourism industry partners (who are Belau Tourism Association members) and co-sharing costs from participating at trade shows, exhibitions, product seminars and road shows alongside PVA at various key markets.
8. Operating expenses - contractual services amounted to \$48,915 in fiscal year 2018 compared to \$101,585 in fiscal year 2017 and \$47,475 in fiscal year 2016.
9. Operating expenses - representation and tours amounted to \$393,350 in fiscal year 2018 compared to \$423,435 in fiscal year 2017 and \$312,000 in fiscal year 2016. The decrease is attributed to participation in trade shows especially in the European markets due to an increase in staff.
10. Operating expenses - personnel and fringe benefits amounted to \$325,488 in fiscal year 2018 compared to \$260,579 in fiscal year 2017 and \$268,552 in fiscal year 2016. The increase is primarily due to vacant positions being filled.
11. Operating expenses - tourism development, public awareness, public relations and training amounted to \$517,430 in fiscal year 2018 compared to \$200,627 in fiscal year 2017 and \$148,680 in fiscal year 2016. These programs include exploring new diversified marketing activities (cruise ships) and response to post-quake disaster relief efforts in Japan, sending eight dancers to the Iwaki City Expo.
12. Operating expenses - registration, booth rental and membership fees amounted to \$8,895 in fiscal year 2018 compared to \$30,849 in fiscal year 2017 and \$8,797 in fiscal year 2016 due to PVA's membership renewal with PATA.
13. Operating expenses - depreciation amounted to \$18,408 in fiscal year 2018 compared to \$23,416 in fiscal year 2017 and \$21,258 in fiscal year 2016. The decrease in depreciation is attributed to disposal of furniture, fixtures and equipment.
14. Operating expenses - communication and postage and supplies and printing amounted to \$281,141 in fiscal year 2018 compared to \$42,003 in fiscal year 2017 and \$35,542 in fiscal year 2016.
15. Operating expenses - travel and transportation amounted to \$4,803 in fiscal year 2018 compared to \$5,273 in fiscal year 2017 and \$2,990 in fiscal year 2016. Savings were driven by a decrease in staff traveling.

Overview of Financial Statements, Continued

Financial Highlights, Continued:

16. Operating expenses - promotional materials amounted to \$11,648 in fiscal year 2018 compared to \$3,325 in fiscal year 2017 and \$4,071 in fiscal year 2016; however, costs were contained within budgeted allocations.
17. Operating expenses - other amounted to \$67,502 in fiscal year 2018 compared to \$36,250 in fiscal year 2017 and \$57,825 in fiscal year 2016.
18. Nonoperating revenues amounted to \$1,426,000 in fiscal years 2018 and 2017 and \$920,000 in fiscal year 2016.

Economic Outlook

Our overall theme for fiscal year 2018 was to turn PVA into a more marketing-focused agency. We prioritized our efforts on a) strategic planning with a more comprehensive analysis of visitor statistics, markets and trends, b) website and social network service by upgrading our website and its contents development, and c) creating education and awareness programs of responsible and sustainable destination.

We also continue to work on d) State tourism product development, as we are working closely with each State government to discover unique ideas through concept development and qualification, and e) program developments that can feature unique Palauan experiences while locals receive the benefits (e.g., Night Market and community-based activities).

PVA's mission statement defines our role, "We are committed to promote our heritage and the unique attractions of Palau through sustainable tourism development and the encouragement of responsible practices." With this, we will continue to deliver our commitment and priorities by a) promoting Palau under the new branding campaign, "Pristine Paradise. Palau", b) diversifying tourism products especially the development of Babeldaob with the collaboration of each State, and c) developing community programs to ensure the benefits of the tourism industry is returned to the Palauan people.

The Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in PVA's report on the audit of financial statements, which is dated April 30, 2018. That Discussion and Analysis explains the major factors impacting the 2017 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

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. If you have questions about this report 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 sn@pristineparadisepalau.com or fax (680) 488-1453.

PALAU VISITORS AUTHORITY

Statements of Net Position
September 30, 2018 and 2017

| <u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u> | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Current assets: | | |
| Cash | \$ 334,318 | \$ 463,371 |
| Receivables: | | |
| Republic of Palau | 2,343 | 2,343 |
| Employee and other | <u>26,756</u> | <u>15,578</u> |
| | 29,099 | 17,921 |
| Less allowance for doubtful accounts | <u>(5,180)</u> | <u>(4,082)</u> |
| Total receivables, net | <u>23,919</u> | <u>13,839</u> |
| Prepaid expenses | <u>56,599</u> | <u>175,267</u> |
| Total current assets | 414,836 | 652,477 |
| Capital assets, net | <u>78,648</u> | <u>76,864</u> |
| Total assets | 493,484 | 729,341 |
| Deferred outflows of resources from pension | <u>186,030</u> | <u>148,126</u> |
| Total assets and deferred outflows of resources | <u>\$ 679,514</u> | <u>\$ 877,467</u> |
| <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u> | | |
| Current liabilities: | | |
| Republic of Palau | \$ 24,410 | \$ 24,410 |
| Accounts payable | 25,535 | 49,335 |
| Accrued expenses | <u>55,035</u> | <u>35,340</u> |
| Total current liabilities | 104,980 | 109,085 |
| Net pension liability | <u>797,733</u> | <u>847,946</u> |
| Total liabilities | 902,713 | 957,031 |
| Deferred inflows of resources from pension | <u>261,239</u> | <u>186,741</u> |
| Total liabilities and deferred inflows of resources | <u>1,163,952</u> | <u>1,143,772</u> |
| Commitment and contingency | | |
| Net position: | | |
| Net investment in capital assets | 78,648 | 76,864 |
| Unrestricted | <u>(563,086)</u> | <u>(343,169)</u> |
| Total net position | <u>(484,438)</u> | <u>(266,305)</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 679,514</u> | <u>\$ 877,467</u> |

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Operating revenues: | | |
| Miscellaneous | \$ 46,996 | \$ 55,265 |
| Operating expenses: | | |
| Tourism development, public awareness, public relations and training | 517,430 | 200,627 |
| Representation and tours | 393,350 | 423,435 |
| Personnel and fringe benefits | 325,488 | 260,579 |
| Communication and postage | 253,918 | 29,837 |
| Contractual services | 48,915 | 101,585 |
| Supplies and printing | 27,223 | 12,166 |
| Depreciation | 18,408 | 23,416 |
| Utilities | 13,549 | 10,091 |
| Promotional materials | 11,648 | 3,325 |
| Registration, booth rental and membership fees | 8,895 | 30,849 |
| Travel and transportation | 4,803 | 5,273 |
| Other | 67,502 | 36,250 |
| Total operating expenses | <u>1,691,129</u> | <u>1,137,433</u> |
| Loss from operations | <u>(1,644,133)</u> | <u>(1,082,168)</u> |
| Nonoperating revenues: | | |
| Republic of Palau appropriation | <u>1,426,000</u> | <u>1,426,000</u> |
| Total nonoperating revenues | <u>1,426,000</u> | <u>1,426,000</u> |
| Change in net position | (218,133) | 343,832 |
| Net position at beginning of year | <u>(266,305)</u> | <u>(610,137)</u> |
| Net position at end of year | <u>\$ (484,438)</u> | <u>\$ (266,305)</u> |

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|------------------------------|------------------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 46,996 | \$ 55,265 |
| Cash payments to suppliers for goods and services | (1,251,267) | (1,029,809) |
| Cash payments to employees for services | <u>(330,590)</u> | <u>(262,961)</u> |
| Net cash used for operating activities | <u>(1,534,861)</u> | <u>(1,237,505)</u> |
| Cash flows from noncapital financing activities: | | |
| Republic of Palau appropriations | <u>1,426,000</u> | <u>1,646,000</u> |
| Net cash provided by noncapital financing activities | <u>1,426,000</u> | <u>1,646,000</u> |
| Cash flows from capital and related financing activities: | | |
| Capital asset acquisitions | <u>(20,192)</u> | <u>(23,334)</u> |
| Net cash used for capital and related financing activities | <u>(20,192)</u> | <u>(23,334)</u> |
| Net (decrease) increase in cash | (129,053) | 385,161 |
| Cash at beginning of year | <u>463,371</u> | <u>78,210</u> |
| Cash at end of year | <u><u>\$ 334,318</u></u> | <u><u>\$ 463,371</u></u> |
| Reconciliation of loss from operations to net cash used for operating activities: | | |
| Loss from operations | \$ (1,644,133) | \$ (1,082,168) |
| Adjustments to reconcile loss from operations to net cash used for operating activities: | | |
| Depreciation | 18,408 | 23,416 |
| Bad debts | 1,098 | - |
| Noncash pension costs | (13,619) | (5,000) |
| (Increase) decrease in assets: | | |
| Employee and other receivables | (11,178) | 7,274 |
| Prepaid expenses | 118,668 | (166,082) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (23,800) | (10,289) |
| Accrued expenses | <u>19,695</u> | <u>(4,656)</u> |
| Net cash used for operating activities | <u><u>\$ (1,534,861)</u></u> | <u><u>\$ (1,237,505)</u></u> |

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(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, 2018 and 2017, cash was \$334,318 and \$463,371, respectively, and the corresponding bank balances were \$424,664 and \$639,871, respectively. Of these amounts, \$423,469 and \$637,172, 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.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(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, 2018 and 2017 was \$38,042 and \$27,160, 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.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(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, 2018 and 2017, PVA does not have 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, 2018, PVA implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards Continued

- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(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 September 30, 2017, the valuation date, plan membership consisted of the following:

| | |
|---|--------------|
| Inactive members currently receiving benefits | 1,576 |
| Inactive members entitled to but not yet receiving benefits | 1,162 |
| Active members | <u>3,422</u> |
| Total members | <u>6,160</u> |

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(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.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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:

| <u>Factor</u> | <u>If the Spouse or Beneficiary is:</u> |
|---------------|--|
| 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:

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

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

- 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.

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.

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.

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, 2018 and 2017 were \$14,923 and \$21,458, respectively, which were equal to the required contributions for the respective years then ended.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2017, 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 | |
| Investment Income: | 7.5% per year, net of investment expenses, including price inflation | |
| Inflation: | 3.0% | |
| Interest on Member Contributions: | 5.0% per year | |
| Salary Increase: | 3.0% per year | |
| Expenses: | \$300,000 each year | |
| Mortality: | RP 2000 Combined Healthy 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: | <u>Age</u> | <u>Disability</u> |
| | 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. | |

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

| | |
|--------------------------------------|---|
| Duty vs Non-duty related disability: | 100% Duty related |
| Refund of Contributions: | 80% of terminated vested members elect a refund of contributions |
| Post Retirement Survivor's Benefit: | 100% of the benefit the retiree was receiving prior to death |
| Final Average Earnings: | Deferred vested members missing data for their final average earnings are assumed to have earned the average amount of current deferred vested members. |
| Benefits: | Retirees and beneficiaries missing data for their monthly benefit amount are assumed to receive the average benefit of current retirees or beneficiaries, respectively. |

Long-Term Expected Rate of Return

The long-term expected rate of return on PVA's investments of 7.5% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of September 30, 2017, the arithmetic real rates of return for each major investment class are as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Expected Rate of Return</u> |
|---------------------------|--------------------------|--------------------------------|
| Cash | 3% | 4.55% |
| Equity | 61% | 6.35% |
| Governmental fixed income | 31% | 7.75% |
| Corporate fixed income | <u>5%</u> | 4.00% |
| | <u>100%</u> | |

Discount Rate

The discount rate used to measure the total pension liability was 3.62% at the current measurement date from 2.98% 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 2022 for the 2017 measurement date. For years on or after 2022, a discount rate of 3.57% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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 3.62%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (2.62%) or 1.00% higher (4.62%) from the current rate.

| | | |
|--------------------------|--|--------------------------|
| <u>1% Decrease 2.62%</u> | <u>Current Single Discount Rate Assumption 3.62%</u> | <u>1% Increase 4.62%</u> |
| \$ 923,733 | \$ 797,733 | \$ 693,185 |

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

Pension Liability. At September 30, 2018 and 2017, PVA reported a liability of \$797,733 and \$847,946, 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, 2018 and 2017, PVA's proportion was 0.3075% and 0.3399%, respectively.

Pension Expense. For the years ended September 30, 2018 and 2017, PVA recognized pension expense of \$1,304 and \$5,887, respectively.

| | | |
|----------------------|-----------------|-----------------|
| | <u>2018</u> | <u>2017</u> |
| Pension contribution | \$ 14,923 | \$ 10,887 |
| GASB 68 adjustment | <u>(13,619)</u> | <u>(5,000)</u> |
| | \$ <u>1,304</u> | \$ <u>5,887</u> |

Deferred Outflows and Inflows of Resources. At September 30, 2018 and 2017, PVA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | | | | |
|---|---------------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|
| | <u>2018</u> | | <u>2017</u> | |
| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
| Difference between expected and actual experience | \$ 73,437 | \$ 15,592 | \$ - | \$ 21,733 |
| Change of assumptions | 93,278 | 75,571 | 129,957 | 20,053 |
| Net difference between projected and actual earnings on pension plan investments | 4,392 | 3,898 | 7,282 | 1,648 |
| PVA's contributions subsequent to measurement date | 14,923 | - | 10,887 | - |
| Changes in proportion and difference between PVA's contributions and proportionate share of contributions | <u>-</u> | <u>166,178</u> | <u>-</u> | <u>143,307</u> |
| | \$ <u>186,030</u> | \$ <u>261,239</u> | \$ <u>148,126</u> | \$ <u>186,741</u> |

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, 2018 will be recognized in pension expense as follows:

PALAU VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2018 and 2017

(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:

Year ending September 30,

| | |
|------------|-------------|
| 2019 | \$ (35,704) |
| 2020 | \$ (20,642) |
| 2021 | \$ (12,296) |
| 2022 | \$ (8,742) |
| 2023 | \$ (5,009) |
| Thereafter | \$ (7,739) |

(4) Fixed Assets

Fixed assets of PVA as of September 30, 2018 and 2017, are summarized below:

| | <u>Estimated Useful Lives</u> | <u>Balance at October 1, 2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at September 30, 2018</u> |
|-----------------------------------|-------------------------------|-----------------------------------|------------------|------------------|--------------------------------------|
| Building | 20 years | \$ 143,122 | \$ - | \$ - | \$ 143,122 |
| Furniture, fixtures and equipment | 1 - 10 years | 147,270 | 20,192 | (13,514) | 153,948 |
| Building improvements | 15 years | 48,970 | - | - | 48,970 |
| Vehicles | 3 - 5 years | 30,290 | - | - | 30,290 |
| | | 369,652 | 20,192 | (13,514) | 376,330 |
| Less accumulated depreciation | | (292,788) | (18,408) | 13,514 | (297,682) |
| | | \$ 76,864 | \$ 1,784 | \$ - | \$ 78,648 |
| | <u>Estimated Useful Lives</u> | <u>Balance at October 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at September 30, 2017</u> |
| Building | 20 years | \$ 143,122 | \$ - | \$ - | \$ 143,122 |
| Furniture, fixtures and equipment | 1 - 10 years | 133,666 | 23,334 | (9,730) | 147,270 |
| Building improvements | 15 years | 48,970 | - | - | 48,970 |
| Vehicles | 3 - 5 years | 34,490 | - | (4,200) | 30,290 |
| | | 360,248 | 23,334 | (13,930) | 369,652 |
| Less accumulated depreciation | | (283,302) | (23,416) | 13,930 | (292,788) |
| | | \$ 76,946 | \$ (82) | \$ - | \$ 76,864 |

(5) Commitment and Contingency

RPPLs 10-12 and 10-01 appropriated \$1,426,000 to PVA for the years ended September 30, 2018 and 2017, respectively, unobligated amounts of which lapse at year end. There were no unobligated amounts related to RPPL 10-12 and 10-01 as of September 30, 2018 and 2017. PVA has recorded liabilities to ROP of \$24,410 as of September 30, 2018 and 2017 for lapsed funding related to its appropriation for the year ended September 30, 2007.

(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.

PALAU VISITORS AUTHORITY

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

| | <u>2017</u> <u>Valuation</u> | <u>2016</u> <u>Valuation</u> | <u>2015</u> <u>Valuation</u> | <u>2014</u> <u>Valuation</u> | <u>2013</u> <u>Valuation</u> |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Civil Service Pension Trust Fund (Plan) total net pension liability | \$ 259,395,005 | \$ 249,453,960 | \$ 215,546,176 | \$ 204,281,232 | \$ 182,080,332 |
| PVA's proportionate share of the net pension liability | \$ 797,733 | \$ 847,946 | \$ 785,542 | \$ 774,226 | \$ 808,983 |
| PVA's proportion of the net pension liability | 0.3075% | 0.3399% | 0.3644% | 0.3790% | 0.4443% |
| PVA's covered employee payroll** | \$ 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 | 447.74% | 471.02% | 444.45% | 434.47% | 435.84% |
| Plan fiduciary net position as a percentage of the total pension liability | 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

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

| | <u>2017</u> <u>Valuation</u> | <u>2016</u> <u>Valuation</u> | <u>2015</u> <u>Valuation</u> | <u>2014</u> <u>Valuation</u> | <u>2013</u> <u>Valuation</u> |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Actuarially determined contribution | \$ 52,825 | \$ 49,005 | \$ 39,724 | \$ 40,269 | \$ 44,722 |
| Contribution in relation to the actuarially determined contribution | <u>10,690</u> | <u>10,654</u> | <u>10,535</u> | <u>10,493</u> | <u>11,179</u> |
| Contribution deficiency | <u>\$ 42,135</u> | <u>\$ 38,351</u> | <u>\$ 29,189</u> | <u>\$ 29,776</u> | <u>\$ 33,543</u> |
| PVA's covered-employee payroll** | <u>\$ 178,167</u> | <u>\$ 180,022</u> | <u>\$ 176,744</u> | <u>\$ 178,199</u> | <u>\$ 185,614</u> |
| Contribution as a percentage of covered-employee payroll | 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.