

*Financial Statements and Required Supplementary
Information*

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

*Year Ended September 30, 2022
with Report of Independent Auditors*



Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Financial Statements and Required Supplementary Information

Year ended September 30, 2022

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Report of Independent Auditors

Board of Directors
Palau Visitors Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type and fiduciary activities of Palau Visitors Authority (the Authority), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of Palau Visitors Authority as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

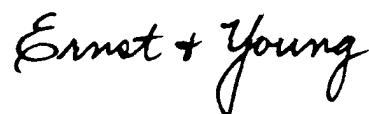
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13, the Schedule of Proportionate Share of the Net Pension Liability on page 38, and Schedule of Pension Contributions on page 39 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 August 6, 2025, on our consideration of the Authority'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 the Authority'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 the Authority's internal control over financial reporting and compliance.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

August 6, 2025

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis

Year Ended September 30, 2022

Purpose

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

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

At the local level, PVA is responsible for generating awareness and understanding of tourism within the community, to ensure that the Palauan people understand the importance of sustainable tourism for the country, what tourism is about, what it does and how it affects the people, the community, and Palau as an island nation.

Organization

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

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

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

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

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

Palau Visitors Authority
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Management's Discussion and Analysis, continued

Statement of Goals and Objectives

Mission Statement:

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

Medium Term Goals:

PVA's goal during FY2022 was primarily focused on getting the island ready to welcome visitors. This was exercised through the continuation of temporary job placements to maintain the industry's skills, planning and executing the Palau Travel Corridor/Bubble, promoting our islands based on airline accessibility, beautification projects on island, and lastly assessments on tourism sites.

Fiscal Year Objectives for Palau in Post-COVID Recovery:

In response to the challenges posed by the COVID-19 pandemic, the Palau Visitors Authority has outlined a comprehensive set of objectives for FY2022 aimed at revitalizing the tourism sector. These objectives focus on addressing immediate recovery needs while establishing a sustainable framework for long-term growth. The overarching goal is to re-establish Palau as a premier travel destination, balancing economic development with environmental and cultural preservation.

To improve the overall visitor experience, PVA plans to invest in upgrading and maintaining key tourism infrastructure, including attractions across the islands. This initiative will be implemented in partnership with state governments and private sector stakeholders, ensuring that infrastructure developments are aligned with visitor expectations and operational efficiency. The focus will be on creating a seamless and high-quality tourism environment that supports increased visitor arrivals.

Recognizing the importance of core markets, PVA will concentrate marketing efforts on the United States, Japan, and Taiwan, which represented the largest sources of tourists in FY2022. Marketing campaigns will emphasize Palau's unique natural beauty, diverse recreational activities, and dedication to sustainable tourism practices. Additionally, the International Tourism Ambassadors program will be expanded to enhance outreach and engagement within these critical markets.

PVA will collaborate closely with state governments and local communities to develop new tourism products that highlight Palau's cultural heritage, traditions, and natural environment. Expansion of the Alii Pass program to additional states is planned to provide visitors with authentic cultural experiences. This initiative aims to generate economic benefits for host communities while preserving and promoting Palauan identity.

Palau Visitors Authority
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Management's Discussion and Analysis, continued

Effective tourism recovery and growth require coordinated efforts across multiple sectors. PVA will strengthen partnerships with government agencies, private sector entities, and non-governmental organizations. This collaboration will focus on joint marketing initiatives, data and insight sharing, and advocacy for policies that foster sustainable tourism development. The goal is to create a unified approach that supports the resilience and competitiveness of Palau's tourism industry.

By implementing these strategic objectives, the Palau Visitors Authority aims to position Palau for a successful post-COVID recovery. Emphasizing infrastructure enhancement, targeted marketing, community engagement, and stakeholder collaboration, PVA is committed to sustainable tourism growth that benefits both visitors and local communities. With continued support and resilience, Palau is poised to regain its status as a leading destination in the global tourism market.

Marketing & Programs Department

In FY2022, the Marketing Department of PVA actively participated in various tradeshows and familiarization tours, showcasing Palau's unique offerings to potential travelers and industry stakeholders. Events included attendance at:

- Chicago Travel & Adventure Show
- Denver Travel & Adventure Show
- Washington D.C. Travel and Adventure Show
- DEMA Show in Florida
- ADEX Ocean Vision in Singapore
- 2022 Scuba Show in Long Beach, California
- San Francisco Bay Area Travel and Adventure Show

These platforms provided PVA with valuable opportunities to connect with travel professionals and promote the destination effectively.

A significant highlight of the year was the hosting of the 7th Our Ocean Conference in April, which attracted over 500 delegates from around the globe, including prominent leaders and ocean experts. This conference underscored Palau's commitment to ocean conservation and sustainable practices, further enhancing its reputation as a leader in environmental stewardship.

Additionally, PVA launched the International Tourism Ambassadors program, which aimed to bolster marketing efforts in the United States. This initiative was crucial in enhancing Palau's visibility in the international tourism market and fostering relationships with key stakeholders.

PVA continues to pre-plan aggressive co-sponsoring and hosting of Familiarization (FAM) Tours for media representatives and travel agents. These tours are designed to increase exposure and destination knowledge, targeting key markets such as Japan, Korea, Taiwan, North America, and Europe, particularly Germany, France, Italy, and the UK. By providing firsthand experiences of Palau's attractions, PVA aims to boost visitor arrivals from these critical markets.

Palau Visitors Authority
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Management's Discussion and Analysis, continued

By the end of 2022, PVA had amassed 33,000 followers on Facebook and 11,000 on Instagram – Five posts during the year achieved a reach of 14,000, contributing to increased visibility and engagement with potential visitors. This robust social media presence is essential for maintaining communication with travelers and promoting Palau's unique attractions.

State & Community Programs Department

The State and Community Department plays a crucial role in promoting sustainable tourism while fostering community engagement and development. This department is responsible for assessing state attractions, facilitating community-based tourism initiatives, and ensuring that local cultures and products are highlighted in the tourism sector. One of its key objectives is to create a positive impact on both the economy and the environment by encouraging responsible tourism practices.

Highlights

The 680 Night Market is a highlight throughout the year as it supports the local economy ever since covid. The night market has featured a series of themed markets throughout the year. Events such as “The Root of it All,” “Low Tides and Good Vibes,” and “Ensuring Our Security and Safety” not only provided entertainment but also showcased local vendors and cultural performances, thereby promoting community involvement.

#KeledANgercheled Logo Contest

The Ministry of Agriculture, Fisheries, and the Environment (MAFE), in collaboration with the Palau Biodiversity Project and the Palau Visitors Authority, is hosting a logo contest titled #KeledANgercheled (Our Food is Our Responsibility). The contest offers a \$250 prize and aims to promote food security and local food production in Palau, emphasizing the importance of community involvement in sustainable practices.

Kayangel Beach Cleanup

In a collaborative effort, the PVA, Kayangel Elementary School students, state volunteers, and various embassies (U.S., Australia, and Taiwan) successfully organized a beach cleanup. Together, they collected 175 bags of trash from three beach locations in Kayangel State, demonstrating the community's commitment to environmental stewardship.

2022 Green Fair

PVA organized the 2022 Green Fair in celebration of Earth Day, themed “Omesiuengl a Beluak el mo Klungiolel a Beluu, Daob, mea Rechad” (Invest in your Community, Invest in our Planet). The event featured live music, delicious food, a raffle, and an Annual Plant Contest, fostering community spirit and raising awareness about environmental issues.

Palau Visitors Authority
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Management's Discussion and Analysis, continued

State Attraction Assessments

PVA, in partnership with the Ministry of Human Resources, Culture, Tourism, and the Development Bureau of Cultural and Historical Preservation, has been conducting annual assessments of state attractions across multiple states. This initiative aims to enhance the tourism experience and promote local attractions effectively.

PATA Destination Marketing Forum

PVA, including Angaur State Governor Kennosuke Suzuki, participated in the PATA Destination Marketing Forum in Thailand. This forum provided valuable insights into destination marketing strategies and allowed Palau to showcase its tourism potential on an international platform.

Collaboration with Taiwan Council of Indigenous Peoples

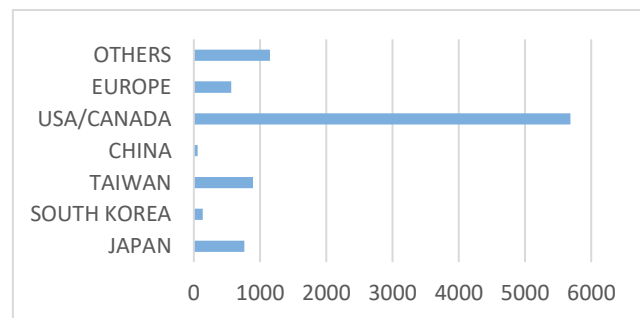
PVA met with a delegation from the Taiwan Council of Indigenous Peoples to discuss community-based tourism initiatives, including the Alii Pass program. This collaboration aims to promote local products and cultural experiences, enhancing the tourism offerings in Palau.

These initiatives reflect the PVA's commitment to sustainable tourism and community engagement, ensuring that the benefits of tourism are shared with local communities while preserving Palau's unique cultural and natural heritage.

Strategic Planning Department

The Strategic Planning Department plays a role in analyzing visitor statistics, forecasting future trends, and maintaining comprehensive records of tourism-related businesses. In fiscal year 2022, Palau experienced a significant rebound in visitor arrivals compared to the previous year. The total number of arrivals jumped from 3,400 in FY2021 to 9,247 in FY2022, marking an increase of 5,847 visitors. The most notable growth came from the USA and Canada, which contributed 5,687 arrivals—an increase of 4,496 visitors from the previous year—making this region the largest source market for Palau in 2022. Arrivals from Japan also surged, rising from just 80 in FY2021 to 762 in FY2022.

Country/Region	FY2021	FY2022	Change
Japan	80	762	682
South Korea	12	136	124
Taiwan	1,912	892	-1,020
China	33	57	24
USA/Canada	1,191	5,687	4,496
Europe	19	563	544
Australia	13	175	162
Others	140	975	835
Total	3,400	9,247	5,847



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Management's Discussion and Analysis, continued

European visitors increased substantially as well, with arrivals climbing from 19 to 563. Australia and South Korea, though smaller in absolute numbers, both saw notable growth, with arrivals reaching 175 and 136, respectively. "Others" category also expanded significantly, from 140 to 975 arrivals.

However, Taiwan was the only major market to see a decline, with arrivals dropping from 1,912 in FY2021 to 892 in FY2022. Arrivals from China saw a modest increase, going from 33 to 57 visitors. Overall, the data reflects a strong recovery in Palau's tourism sector in FY2022, driven primarily by the surge in visitors from the USA/Canada, Japan, and Europe, despite the drop in Taiwanese arrivals.

Airline Connectivity

United Airlines and China Airlines maintained regular operations, ensuring vital connectivity for key visitor markets and supporting the rebound in arrivals.

Funding

PVA receives its annual operational funding from the Unified Budget appropriation of the OEK. Its total budget for FY2022, FY2021 and FY2020 was \$1,088,000, \$1,426,000 and \$1,426,000, respectively. PVA's budget is allocated based on its main functions of authority as follows: 28.3% for Administration, 57.0% for Marketing and Research, 14.7% for Community Services and related program developments.

Overview of Financial Statements

PVA's investment in capital assets for FY2022 was \$91,093 as compared to \$86,081 in FY2021. This is due to assets being fully depreciated and replacement of deletions.

Palau Visitors Authority
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Management's Discussion and Analysis, continued

Statements of Net Position:

	<u>2022</u>	<u>2021</u>
Current assets	\$ 792,308	\$ 769,053
Capital assets	91,093	86,081
Deferred Outflows of Resources from Pension	<u>410,192</u>	<u>542,080</u>
Total assets and Deferred Outflows of resources	\$ <u>1,293,593</u>	\$ <u>1,397,214</u>
Current liabilities	\$ 140,614	\$ 73,222
Net pension liability	1,181,039	1,382,775
Deferred Inflow of Resources	382,309	251,368
Net assets:		
Invested in capital assets	91,093	86,081
Unrestricted	(<u>501,462</u>)	(<u>396,232</u>)
Total net Position	\$ <u>1,293,593</u>	\$ <u>1,397,214</u>

Statements of Revenues, Expenses and Changes in Net Assets:

Operating revenues	\$ 1,301,667	\$ 161,782
Operating expenses	<u>2,489,885</u>	<u>1,425,691</u>
Loss from operations	(1,188,218)	(1,263,909)
Nonoperating revenues	<u>1,088,000</u>	<u>1,426,000</u>
Change in net assets	(100,218)	162,091
Net assets at beginning of year	(<u>310,151</u>)	(<u>472,242</u>)
Net assets at end of year	\$(<u>410,369</u>)	\$(<u>310,151</u>)

Statements of Cash Flows:

Cash flows from operating activities	\$(965,693)	\$(1,482,211)
Cash flows from noncapital financing activities	823,500	1,426,000
Cash flows from capital and related financing activities	(<u>35,952</u>)	(<u>19,955</u>)
Net decrease in cash	(178,145)	(76,166)
Cash at beginning of year	<u>609,076</u>	<u>685,242</u>
Cash at end of year	\$ <u>430,931</u>	\$ <u>609,076</u>

Palau Visitors Authority
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Management's Discussion and Analysis, continued

Statements of Net Assets:

1. Cash amounted to \$430,931 at FYE2022 as compared to \$609,076 at FYE2021 due to continuation of Pandemic Re-employment Program (PREP), Travel Bubble Incentives and COVID Relief Program.
2. Employee receivables amounted to \$62,920 at FYE2022 as compared to \$48,859 at FYE2021. The increase is due to reconciliation of travel advances that has not been done in timely manner, therefore are charge to traveler (Employee) until travel expense reports are submitted and reconciled.
3. ROP Receivables amounted to \$264,500 at FYE2022 is due to last quarter allotment for FY2022 was not received on timely basis.
4. The allowance for doubtful accounts amounted to \$1,539 at FYE2022 as compared to \$5,637 at FYE2021 due to timely employee payroll deductions.
5. Accounts payable amounted to \$44,619 at FYE2022 as compared to \$29,190 at FYE2021. This is due to that timing of payments and increase in invoices posted at end of FY2022.
6. PVA had invested in capital assets of \$91,093 at FYE2022 as compared to \$86,081 at FYE2021, net of accumulated depreciation where applicable, including furniture, machinery & equipment, building improvements and vehicles. The increase is due to new assets being added to fixed assets inventory.
7. Total net position amounted to \$(410,369) at FY 2022 as compared to \$(310,151) at FYE2021, which is primarily attributed to decrease in ROP appropriation

Statements of Revenues, Expenses and Changes in Net Position:

1. Operating revenues amounted to \$1,301,667 in FY2022 as compared to \$161,782 in FY2021 that is attributed to continuation of PREP Program, COVID Relief, Travel Bubble Program Funding and collection of contributions from local tourism industry partners who are BTA members for their co-sharing costs in participating at trade shows, exhibitions, product seminars and road shows alongside PVA at various key markets, registration for local vendors at every night markets, and entry fee for cultural tour and lunch or dinner at Alii Pass Program.
2. Operating expenses - contractual services amounted to \$119,740 in FY2022, which is for single audit, legal advisor retainer and COVID-19 Pre-Vaccine protocols & guidelines, as compared to \$33,585 in FY2021.
3. Operating expenses - representation and tours amounted to \$764,635 in FY2022 as compared to \$351,762 in FY2021. The increase was due to tradeshow and FAM Tours resumes and most flights resume to regular schedules.

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Management's Discussion and Analysis, continued

4. Operating expenses - personnel and fringe benefits amounted to \$397,202 in FY2022 as compared to \$376,569 in FY2021, more or less, in line annually.
5. Operating expenses - tourism development, public awareness, public relations and training amounted to \$975,592 in FY2022 as compared to \$415,524 in FY2021; Due to flights resuming their regular schedules, there was an increase in activities related to public awareness, public relations, and training for post-COVID-19.
6. Operating expenses - registration, booth rental and membership fees amounted to \$9,057 in FY2022 as compared to \$14,570 in FY2021. The decrease is due to incentives & Support to cover booth rentals to promote Tourism programs.
7. Operating expenses - depreciation amounted to \$30,940 in FY2022 as compared to \$27,465 in FY2021 due to increase in PVA Assets.
8. Operating expenses - communications and postage and supplies and printing amounted to \$83,572 in FY2022 as compared to \$82,462 in FY2021; slight increase due to marketing/promotion via social media and printing of PREP Payroll Checks.
9. Operating expenses - travel and transportation amounted to \$5,428 in FY2022 as compared to \$3,524 in FY2021, due to the continual increase of fuel costs.
10. Operating expenses - promotional materials amounted to \$2,935 in FY2022 as compared to \$6,590 in FY2021 as contained within budgeted allocations.
11. Operating expenses - utilities amounted to \$17,857 in FY2022 as compared to \$10,012 in FY2021 due to increase of Fuel cost.
12. Nonoperating revenues amounted to \$1,088,000 for FY2022 as compared to \$1,426,00 in FY2021, which was decreased due to budget cut.

Concluding Summary

In FY2022 and FY2021, PVA tried its best in adhering to finance and property management policies and procedures with the intention to improve operational and financial compliance and controls for PVA's operations. Ultimate consistency in maintaining monthly reconciliations and recordkeeping continues to be PVA's desired accomplishment for its Accounting. PVA hopes to do its best to improve on compliance and adherence to finance and property management policies and procedures.

Palau Visitors Authority
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Management's Discussion and Analysis, continued

Economic Outlook

The economic outlook for Palau's tourism sector in FY2023 is cautiously optimistic, supported by the positive trends observed in FY2022. During this fiscal year, Palau welcomed 9,247 visitors, marking a remarkable 172% increase compared to the previous year. The primary markets contributing to this influx included USA/Canada with 5,687 visitors (61.5% market share), Taiwan with 892 visitors (9.6% market share), and Japan with 762 visitors (8.2% market share).

The anticipated increase in visitor arrivals in FY2023 is expected to contribute positively to the local economy, supporting various sectors such as hospitality, retail, and transportation. PVA aims to leverage this growth by promoting sustainable tourism practices that benefit local communities and preserve the environment. Projections indicate that Palau could welcome approximately 12,000 visitors in FY2023, reflecting an anticipated growth of about 30% compared to FY2022.

However, challenges remain, particularly in rebuilding airlift capacity and enhancing tourism infrastructure. The PVA will focus on targeted marketing strategies in key source markets, develop community-based tourism products, and strengthen partnerships with local stakeholders to ensure sustainable growth in the tourism sector. By addressing these challenges and capitalizing on the growth opportunities, PVA is committed to revitalizing Palau's tourism industry and ensuring its long-term sustainability.

Contacting PVA's Financial Management

This financial report is designed to provide a general overview of PVA's finances and to demonstrate PVA's accountability for the money it receives. The Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in the report on the audit of PVA's financial statements which is dated September 25, 2024. That Discussion and Analysis explains the major factors impacting the 2021 financial statements. If you have questions about the 2022 or 2021 reports, or need additional information, please contact the Managing Director at the Palau Visitors Authority, P.O. Box 256, Koror, Republic of Palau 96940, or call (680) 488-1930; 488-2793 or e-mail kadoi@pristine.pw or fax (680) 488-1453.

Palau Visitors Authority
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Statement of Net Position
September 30, 2022

Assets and Deferred Outflows of Resources

Current assets:

Cash \$ 430,931

Receivables:

Republic of Palau 264,500

Employee and other 62,920

327,420

Less allowance for doubtful accounts (1,539)

Total receivables, net 325,881

Prepaid expenses 35,496

Total current assets 792,308

Capital assets, net 91,093

Total assets 883,401

Deferred outflows of resources from pension 410,192

Total assets and deferred outflows of resources \$1,293,593

Liabilities, Deferred Inflows of Resources and Net Position

Current liabilities:

Accounts payable \$ 44,619

Accrued expenses 58,450

Due to fiduciary fund 37,545

Total current liabilities 140,614

Net pension liability 1,181,039

Total liabilities 1,321,653

Deferred inflows of resources from pension 382,309

Total liabilities and deferred inflows of resources 1,703,962

Net position:

Net investment in capital assets 91,093

Unrestricted (501,462)

Total net position (410,369)

Total liabilities, deferred inflows of resources
and net position \$1,293,593

See accompanying notes.

Palau Visitors Authority
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Statement of Revenues, Expenses and Changes in Net Position
Year ended September 30, 2022

Operating revenues:	
Miscellaneous	\$1,301,667
Recoveries of doubtful accounts	<u>10,603</u>
Operating revenues, net	<u>1,312,270</u>
Operating expenses:	
Tourism development, public awareness, public relations and training	975,592
Representation and tours	764,635
Personnel and fringe benefits	397,202
Contractual services	119,740
Communication and postage	83,572
Insurance	34,757
Depreciation	30,940
Supplies and printing	20,043
Utilities	17,857
Registration, booth rental and membership fees	9,057
Travel and transportation	5,428
Promotional materials	2,935
Other	<u>38,730</u>
Total operating expenses	<u>2,500,488</u>
Loss from operations	(1,188,218)
Nonoperating revenues:	
Republic of Palau appropriation	<u>1,088,000</u>
Change in net position	(100,218)
Net position at beginning of year	(<u>310,151</u>)
Net position at end of year	\$(<u>410,369</u>)

See accompanying notes.

Palau Visitors Authority
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Statement of Cash Flows
Year ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$1,286,244
Net cash received for fiduciary activities	118,804
Cash payments to suppliers for goods and services	(2,085,564)
Cash payments to employees for services	(285,177)
Net cash used in operating activities	(965,693)
Cash flows from noncapital financing activities –	
Republic of Palau appropriations	823,500
Cash flows from capital and related financing activities -	
Capital asset acquisitions	(35,952)
Net decrease in cash	(178,145)
Cash at beginning of year	<u>609,076</u>
Cash at end of year	<u>\$ 430,931</u>
Reconciliation of loss from operations to net cash	
used in operating activities:	
Loss from operations	\$(1,188,218)
Adjustments to reconcile loss from operations	
to net cash used in operating activities:	
Depreciation	30,940
Noncash pension costs	61,093
Decrease (increase) in assets:	
Employee and other receivables	(18,159)
Increase (decrease) in liabilities:	
Accounts payable	15,429
Accrued expenses	14,418
Due to fiduciary fund	<u>118,804</u>
Net cash used in operating activities	<u>\$(965,693)</u>

See accompanying notes.

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Statement of Fiduciary Net Position
September 30, 2022

Assets

Due from primary government	\$ <u>37,545</u>
	\$ <u>37,545</u>

Fiduciary Net Position

Net position – restricted for PERP	\$ <u>37,545</u>
	\$ <u>37,545</u>

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Statement of Changes in Fiduciary Net Position
Year ended September 30, 2022

Additions:	
PREP revenues	\$1,418,741
Deductions:	
PREP expenses	<u>1,381,196</u>
Change in fiduciary net position	37,545
Fiduciary net position at beginning of year	<u>----</u>
Fiduciary net position at end of year	\$ <u><u>37,545</u></u>

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Notes to Financial Statements

Year Ended September 30, 2022

1. Organization

The Palau Visitors Authority (PVA or the Authority), 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

Government-wide Financial Statements

The government-wide financial statements consist of the statement of net position and statement of revenues, expenses and changes in net position. Fiduciary activities are not included in the government-wide financial statements.

Fiduciary Fund Financial Statements

Separate financial statements are provided for fiduciary funds, specifically custodial funds. Fiduciary financial statements include assets, liabilities and activities of the Pandemic Re-employment Program (the "PREP"), for which PVA has been legally designated to control but PVA itself is not a beneficiary.

In May 2020, PVA was appointed by the National Government to be part of the Temporary Workforce Coordinating Committee (TWCC) along with the Ministry of Community and Cultural Affairs and the Social Security Administration in pursuant with the implementation of RPPL 10-56, the Coronavirus One-Stop-Shop Act ("CROSS Act"). The purpose of TWCC is to collaborate on logistical matters, coordinate and prioritize projects, avoid duplication of work, and maximize the benefits generated for the Republic and its priorities. PVA's roles were as follows: disbursement and receiving of applications, updating database, receiving and verifying timesheets, check disbursements for all active participants, finding job opportunities for active participants in the private sector, networking with private companies, seeking vacancies, providing services of search and selection of participants matching CV's with vacancies, constantly updating resume for active participants, and handling work-related issues with participants and agencies.

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, continued

Fiduciary Fund Financial Statements, continued

The TWCC organized the PREP in pursuant of the Temporary Job Program under the CROSS Act. Qualified employees will be employed temporarily in certain government agencies, semi-government agencies, non-profit organizations or non-governmental organizations and be provided a minimum wage of \$3.50 per hour.

During the year ended September 30, 2022, PVA received \$1,500,000 of PREP funding from ROP, of which \$81,259 pertained to the year ended September 30, 2021 and \$1,381,196 pertained to disbursements for the year ended September 30, 2022. At September 30, 2022, the excess receipt of \$37,545 is reported as due to fiduciary fund and due from PVA in the accompanying primary government statement of net position and fiduciary net position, respectively.

The PERP ended on January 15, 2023.

Basis of Accounting

The government-wide financial statements and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Accounting 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.

Budget and Appropriation

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

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, continued

Cash

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand or savings accounts. As of September 30, 2022, cash was \$430,931 and the corresponding bank balance were \$502,411. Of these amounts, bank balance of \$500,912 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance and \$353,622 is subject to the FDIC insurance coverage limits. PVA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

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 against operating revenues 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.

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, 2022 was \$18,477.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses include all direct and administrative revenues and expenses. Operating revenues include income or cost reimbursements from ROP Treasury, not-for-profit organizations or other foreign governmental or non-governmental entities relating to various ad-hoc programs. These programs may differ from year to year.

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

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, continued

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.

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.

Taxes

PVA is exempt from all national and state non-payroll taxes

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.

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, continued

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, 2022, PVA has not recorded a restricted net position.
- Unrestricted: net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Recently Adopted Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 during the year ended September 30, 2022 did not result in a material effect on the accompanying financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 during the year ended September 30, 2022 did not have an effect on the accompanying financial statements.

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (a) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The adoption of GASB Statement No. 97 did not have an effect on the accompanying financial statements.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The adoption of GASB Statement No. 98 during the year ended September 30, 2022 did not have an effect on the accompanying financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:

- Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended.
- Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets.
- Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit.

Palau Visitors Authority
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Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended*, related to the focus of the government-wide financial statements.
- Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021.

These provisions of GASB Statement No. 99 were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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

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

Palau Visitors Authority
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Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.
- Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

Palau Visitors Authority
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Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal years ending September 30, 2025.

PVA is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements

Palau Visitors Authority
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Notes to Financial Statements, Continued

3. Pension Plan

Plan Description

The following brief description of the Republic of Palau Civil Service Pension Plan and Trust (the Plan) is provided for general information purposes only.

General

The Plan is a defined benefit, cost sharing multiple employer plan, providing retirement, security and other benefits to employees, their spouses and dependents, of the Republic of Palau (ROP), ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to 33 Palau National Code Annotated (PNCA) section 2001 passed on April 3, 1987, and began operations on October 1, 1987.

Summary of the Principal Provisions of the Plan

Membership

The ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, participate in the Plan. Membership consisted of the following as of October 1, 2021 (the valuation date):

Inactive members or beneficiaries currently receiving benefits	1,730
Inactive members entitled to but not yet receiving benefits	404
Inactive nonvested members	1,105
Active members	<u>3,423</u>
Total members	<u>6,662</u>

Effective date:	October 1, 1987
Plan year:	October 1 through September 30

Eligibility to Participate

All persons becoming full-time employees of a participating agency before attaining the age of sixty shall become members as a condition of employment.

Service

Vesting Service: Includes membership service and prior service credit.

Palau Visitors Authority
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Notes to Financial Statements, Continued

3. Pension Plan, continued

Summary of the Principal Provisions of the Plan, continued

Service, continued

Membership Service: A year of membership service is earned for a year of service rendered at a participating employer. Years of membership service shall be rounded to the nearest one year. Membership service includes accumulated sick leave and vacation leave.

Prior Service Credit: Persons becoming members of the Plan on October 1, 1987 are entitled to Prior Service Credit for services rendered as an employee of participating agencies, the Trust Territory of the Pacific Islands (TTPI), and the United States Naval Government after World War II and before the establishment of the TTPI.

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 Pension Fund 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.

Palau Visitors Authority
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Notes to Financial Statements, Continued

3. Pension Plan, continued

Summary of the Principal Provisions of the Plan, continued

Pension Benefits, continued

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

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

<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:

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

Palau Visitors Authority
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Notes to Financial Statements, Continued

3. Pension Plan, continued

Summary of the Principal Provisions of the Plan, continued

Pension Benefits, continued

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

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.
- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

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

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

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.

Palau Visitors Authority
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Notes to Financial Statements, Continued

3. Pension Plan, continued

Member Contributions

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

Employer and Other Contributions

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

PVA's contribution to the Plan for the year ended September 30, 2022 were \$14,017, which were equal to the required contributions for the year then ended.

Actuarial Assumptions and Other Inputs

The total pension liability was determined by an actuarial valuation as of October 1, 2021 using the following actuarial assumptions and other inputs:

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
Long-term Expected Rate of Return:	6.74% per year, net of investment expenses, including price inflation

Palau Visitors Authority
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Notes to Financial Statements, Continued

3. Pension Plan, continued

Actuarial Assumptions and Other Inputs, continued

Municipal Bond Index Rate:	2.17%																		
Year fiduciary net position is Projected to be depleted:	2027																		
Price Inflation:	2.5% per year																		
Interest on Member Contributions:	5.0% per year																		
Salary Increase:	3.0% per year																		
Expenses:	\$300,000 each year																		
Mortality:	RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years																		
Termination of Employment:	5% for ages 20 to 39; none for all other ages																		
Disability:	<table> <tr> <th><u>Age</u></th><th><u>Disability</u></th></tr> <tr> <td>25</td><td>0.21%</td></tr> <tr> <td>30</td><td>0.18%</td></tr> <tr> <td>35</td><td>0.25%</td></tr> <tr> <td>40</td><td>0.35%</td></tr> <tr> <td>45</td><td>0.50%</td></tr> <tr> <td>50</td><td>0.76%</td></tr> <tr> <td>55</td><td>1.43%</td></tr> <tr> <td>60</td><td>2.12%</td></tr> </table>	<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%
<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
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, Continued

3. Pension Plan, continued

Actuarial Assumptions and Other Inputs, continued

Duty vs Non-duty related disability:	100% Duty related
Refund of Contributions:	80% of terminated vested members elect a refund of contributions

Investment Rate of Return

The long-term expected rate of return on Plan's investments of 5.95% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of July 2024, the twenty-year 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>
US Equities	46%	8.46%
Non-US Equities (Mature Markets)	10%	8.20%
Fixed Income (US Core)	40%	3.72%
Alternatives (Real Estate Investment Trusts)	4%	8.72%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 2.23% at the current measurement date and 2.28% at the prior measurement date. The discount rate was determined using the current assumed rate of return of 6.74% until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2027. For years on or after 2027, the Municipal Bond Index Rate of 2.17% was used. The Municipal Bond Index Rate from the prior measurement date was 2.28%.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of PVA as of September 30, 2022 calculated using the discount rate of 2.23%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.23%) or 1.00% higher (3.23%) from the current rate.

<u>1% Decrease</u>	<u>Current Single Discount Rate</u>	<u>1% Increase 3.23%</u>
<u>1.23%</u>	<u>Assumption 2.23%</u>	
\$1,556,967	\$1,181,039	\$1,150,357

Palau Visitors Authority
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Notes to Financial Statements, Continued

3. Pension Plan, continued

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

Pension Liability

As of September 30, 2022, PVA reported a liability of \$1,181,039 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. As of September 30, 2022, PVA's proportion was 0.39%.

For the year ended September 30, 2022, PVA recognized pension expense as follows.

Pension contribution	\$14,017
GASB 68 adjustment	<u>61,093</u>
	<u>\$75,110</u>

Deferred Outflows and Inflows of Resources

As of September 30, 2022, PVA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ 29,037	\$191,749
Change of assumptions	226,121	58,776
Net difference between projected and actual earnings on pension plan investments	1,662	7,563
PVA's contributions subsequent to measurement date	16,385	---
Changes in proportion and difference between PVA's contributions and proportionate share of contributions	<u>136,987</u>	<u>124,221</u>
	<u>\$410,192</u>	<u>\$382,309</u>

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, Continued

3. Pension Plan, continued

Deferred Outflows and Inflows of Resources, continued

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, 2022 will be recognized in pension expense as follows:

Year ending September 30,

2023	\$24,494
2024	19,196
2025	25,847
2026	(7,539)
2027	(23,154)
Thereafter	<u>(27,346)</u>
	<u>\$11,498</u>

4. Capital Assets

Capital assets of PVA as of September 30, 2022, are summarized below:

	Estimated Useful Lives	Balance at October 1, 2021	Additions	Deletions	Balance at September 30, 2022
Building	20 years	\$143,122	\$ ---	\$ ---	\$143,122
Furniture, fixtures and equipment	1 - 10 years	203,962	21,337	---	225,299
Building improvements	15 years	48,970	2,870	---	51,840
Vehicles	3 - 5 years	<u>48,285</u>	<u>11,745</u>	<u>---</u>	<u>60,030</u>
		444,339	35,952	(---)	480,291
Less accumulated depreciation		<u>(358,258)</u>	<u>(30,940)</u>	<u>---</u>	<u>(389,198)</u>
		<u>\$ 86,081</u>	<u>\$ 5,012</u>	<u>\$ ---</u>	<u>\$ 91,093</u>

5. Risk Management

PVA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. PVA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims have not exceeded this commercial coverage in any of the past three years.

Palau Visitors Authority
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Notes to Financial Statements, Continued

6. Related Party Transactions

For the year ended September 30, 2022, PVA received appropriations of \$1,088,000 from ROP for the purpose of funding its operations. At September 30, 2022, \$264,500 relating to funding for July to September 2022, subsequently received in October 2022, is included as due from ROP in the accompanying statement of net position.

Required Supplementary Information

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Required Supplemental Information
Schedule of Proportionate Share of the Net Pension Liability

Last 10 Fiscal Years*

	<u>2021</u> <u>Valuation</u>	<u>2020</u> <u>Valuation</u>	<u>2019</u> <u>Valuation</u>	<u>2018</u> <u>Valuation</u>	<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	\$ 304,866,042	\$ 344,384,167	\$ 308,480,463	\$ 250,868,784	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232	\$ 182,080,332
PVA's proportionate share of the net pension liability	\$ 1,181,039	\$ 1,382,775	\$ 1,270,443	\$ 1,111,286	\$ 797,733	\$ 847,946	\$ 785,542	\$ 774,226	\$ 808,983
PVA's proportion of the net pension liability	0.3874%	0.4015%	0.4118%	0.4430%	0.3075%	0.3399%	0.3644%	0.3790%	0.4443%
PVA's covered employee payroll**	\$ 233,617	\$ 246,250	\$ 246,117	\$ 259,900	\$ 178,167	\$ 180,022	\$ 176,744	\$ 178,199	\$ 185,614
PVA's proportionate share of the net pension liability as a percentage of its covered employee payroll	505.54%	561.53%	516.19%	427.58%	447.74%	471.02%	444.45%	434.47%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	10.47%	8.42%	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%	15.84%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

Palau Visitors Authority
(A Component Unit of the Republic of Palau)

Required Supplemental Information
Schedule of Pension Contributions

Last 10 Fiscal Years*

	2021 <u>Valuation</u>	2020 <u>Valuation</u>	2019 <u>Valuation</u>	2018 <u>Valuation</u>	2017 <u>Valuation</u>	2016 <u>Valuation</u>	2015 <u>Valuation</u>	2014 <u>Valuation</u>	2013 <u>Valuation</u>
Actuarially determined contribution	\$ 59,923	\$ 63,256	\$ 58,031	\$ 76,694	\$ 52,825	\$ 49,005	\$ 39,724	\$ 40,269	\$ 44,722
Contribution in relation to the actuarially determined contribution	<u>14,017</u>	<u>14,775</u>	<u>14,767</u>	<u>15,594</u>	<u>10,690</u>	<u>10,654</u>	<u>10,535</u>	<u>10,493</u>	<u>11,179</u>
Contribution deficiency	<u>\$ 45,906</u>	<u>\$ 48,481</u>	<u>\$ 43,264</u>	<u>\$ 61,100</u>	<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>\$ 233,617</u>	<u>\$ 246,250</u>	<u>\$ 246,117</u>	<u>\$ 259,900</u>	<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%	6.00%	6.00%	6.00%	6.00%	5.92%	5.96%	5.89%	6.02%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Palau Visitors Authority

We have audited, in accordance with the 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, the financial statements of Palau Visitors Authority (PVA), a component unit of the Republic of Palau, (PVA), which comprise the statement of net position as of September 30, 2022, and the related statements of changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 6, 2025.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PVA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PVA's internal control. Accordingly, we do not express an opinion on the effectiveness of PVA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

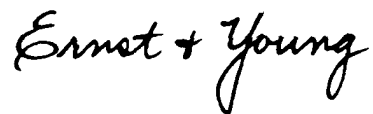
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PVA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

August 6, 2025