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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

Deloitte.

Deloitte & Touche LLC
Isa Drive, Capitol Hill
P.O. Box 500308
Saipan, MP 96950-0308
CNMI

Tel: (670) 322-7337/8
Fax: (670) 322-7340
www.deloitte.com

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, 2016 and 2015, 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.

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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, 2016 and 2015, 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 11 as well as the Schedule of Proportional Share of the Net Pension Liability on page 28 and the Schedule of Pension Contributions on page 29 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 June 19, 2017 on our consideration of PVA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PVA's internal control over financial reporting and compliance.

Deloitte & Touche LLC

June 19, 2017

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

Management's Discussion and Analysis
Year Ended September 30, 2016

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 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 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: 1) Management and Administration, 2) Marketing and Community Programs, 3) Strategic Planning and 4) Accounting. There are currently ten full-time, two part-time Airport and four 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.

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.

Statement of Goals and Objectives, Continued

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 trend and economic activities of ROP.

1. Visitor Analysis: The tourism industry is extremely vulnerable. For Palau, 2016 was no exception. ROP suffered from both geo-political and climate challenges as we experienced a severe drought and political implications of diplomacy.

2. Overall visitor numbers dropped by 15% versus 2015, or 138,408 versus 161,931. We need to find the right balance of diversifying markets in order to be sustainable instead of heavily relying on one market source.

3. By Market Trend: The People's Republic of China (PRC) is still the number one market source at 64,990 visitors, decreasing by 23% versus a year ago. Traditional key markets also declined versus a year ago, including Japan by 7% (29,238 in 2016), ROC Taiwan by 7% (13,934 in 2016), and the USA by 5% (8,454 in 2016). Visitors from Europe increased by 2% (5,002 in 2016) versus a year ago. The only sustained market was South Korea at 100%.

4. Revenue per Visitor: Fiscal year 2015 (October 2014 to September 2015) was up by 8% at $1,013 per visitor versus $939 from that of fiscal year 2014 (October 2013 to September 2014). This is slightly lower than fiscal year 2013 at $1,078 and suggests that the quality of visitors are returning after seeing a revenue dilution from the mass tourism model in fiscal year 2014. (The figures are for comparison purposes as complete revenue data is not available for fiscal year 2016.)

<u>Marketing and Community Programs Department (Key Performance Indicators)</u>

- 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.

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

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

	No. of Tradeshows	No. of Total Visits	Trade Visits*	Consumer Research**
B2B (business to business)	3	62,945	6	1
B2C (business to consumer)	5	366,871	4	4

* Trade visit: PVA to meet travel agents for opportunities/planning
** Consumer research: PVA to conduct direct interviews/focus groups/surveys

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

- Pacific Asia Tourism Association (PATA) programs - engaging key industry influencer and access to database:

	No. of Tradeshows	No. of Total Visits	Key Seminars
B2B	3	3,500	5

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. 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 partnership and sponsorship of our key industry stakeholders in order for the media to get maximum exposure and travel agents to learn about destination knowledge. Fiscal year 2016 FAM trips were mainly conducted from Japan. We need to re-evaluate our FAM system and budget allocation due to increasing challenges with airfare support.

- Media Review: PVA utilizes different touch points for communications.

Website

Objective: Provide overall information of Palau as an aspired destination and increase interest to visit Palau.

Strategy:

- Use stunning photos of Palau to showcase "Pristine Paradise Palau";
- Include frequently searched words and interests in order to increase hits on search engines;

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

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

- Use content management platform (to be ready with more budget) with multi-lingual platform - technical; and

- Use off-shore hosting to provide timely and non-distractive contents due to Palau's slow internet - technical.

Social Media: With a growing shift in media from traditional means to viral and consumer generated contents, PVA is putting more strategic effort and importance on social network service (SNS) usage.

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 to reach effectively, e.g., diving and bird watching online communities (overseas);

- Use SNS with our community-based activities, e.g., contests to increase "likes" or engagements in our page (Palau); and

- Manage contents frequently to invite users to our page.

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; and

- Proactively work with overseas production or travel content agents via FAM format to maximize exposure.

Local News Paper (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 as one of the aspired working environments for the young Palauan community.

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

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

FY2016 Indicators

	Facebook (Jan-Aug)	Twitter	Channel 37	Newspapers (Local)
FY Total	Likes: 7,255 Posts: 4,546 Shares: 3,481	Visits: 516 Impressions: 9,160 Followers: 24	36 contents	Ad value $4,880 # of articles: 23
Monthly average	Likes: 605 Posts: 379 Shares: 290	Visits: 43 Impressions: 763		

Review of our Media Touchpoints

1) Website: Due to the lack of budget, our site remains "static" providing information versus providing "dynamic" user friendly content. We will propose to drastically upgrade the user ability, content and compatibility with the SNS platform in the next fiscal year.

2) SNS: We completed an audit of SNS target profiling and community opportunities. Our consultants, Destination Think! Team, proposed for a few individuals to act as "key influencers" for our key segments, e.g., diving and bird watching. We will use this proposal in the remaining fiscal year and increase our reach and followers significantly.

3) Local Media: We have identified Channel 37 and newspapers to be our improvement area in FY2016. Due to the lack of resources and in-house capabilities, the channel has been idle. We hired an individual with technical skills and passion to change our mediums. We are set to start utilizing more entertaining and useful information for both visitors and locals. We will also re-evaluate contents for the next fiscal year.

- Night Markets: Since its renewal in 2014, the Night Market has been known as the "place to be" on Friday nights and became a signature program for locals and tourists. There are two programs: a) Palauan Night where we feature traditional dances sometimes featured by State governments when available, and b) International Night where we feature Palau's different interactions with multiple cultures.

	Vendor Earnings	Budget Spent	ROI	Vender Number	Night Market Visitor Headcount	Ref: Arrival Number
2016: monthly ave IYA)	$7,734 (158)	$1,485/event	5.2	17.7 (113)	1,540 (44)	11,534 (85)
2015: monthly ave	$4,884	$1,485/event	3.29	15.7	3,483	13,494
2016: Total (IYA)	$162,428 (175)	$31,200	5.20	371 (124)	32,322 (48)	138,408 (85)
2015: Total	$92,793	$31,200	2.97	298	66,194	161,931

- State Tourism Development: Through State representative meetings, we work with each State to develop its own unique programs. We also provide training opportunities for State governments and private sectors to develop human resources in the areas of customer service, tour guiding, brochure development and grant writing. In fiscal years 2015 and 2014, PVA conducted State surveys and visits to develop unique and original ideas for tourism products in a "concept board" format. Many ideas were exposed and tested at numerous trade shows and consumer interviews.

Statement of Goals and Objectives, Continued

Fiscal Year Objectives, Continued:

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

- Island-wide beautification of Palau through the "I Love Palau, I Keep It Clean" campaign that encourages cleanliness of hamlets, States, attraction sites, the Rock Islands for the continuity of Palau's natural and pristine environment.

Strategic Planning Department

- Market Assessment: The Strategic Planning team together with the Marketing team built up market intelligence. For 2016, due to a sudden change in the market dynamics, PVA prioritized and invested to learn more about the biggest market source, PRC. Through tradeshows and "market ready" trainings, we built up knowledge and capabilities to market into PRC.

- Monthly Visitor Stats Report: For ten of twelve months, we submitted the monthly Visitor Arrivals Statistical Report on the 10^{th} of each succeeding month. Due to data validation issues and data availability, two months were submitted a few days late. From January 2017, we have made significant changes in our reporting system.

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

- Forex and visitor trend was conducted to verify a strong co-relation between the foreign exchange rate and the number of visitors. We need to carefully follow the global economic trend and proactively work with sourcing markets.

- 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

- Encourage compliance with 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 Olbiil Era Kelulau. Its total budget for fiscal years 2016, 2015 and 2014 was $920,000, $840,000 and $645,000, 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

Statements of Net Position:

	2016	2015	2014 (As Restated)
Current assets	$ 328,508	$ 250,271	$ 239,270
Capital assets	76,946	76,981	62,176
Total assets	405,454	327,252	301,446
Deferred outflows of resources from pension	84,089	60,024	10,493
Total assets and deferred outflows of resources	$ 489,543	$ 387,276	$ 311,939
Current liabilities	$ 124,030	$ 88,698	$ 115,119
Net pension liability	785,542	774,226	808,983
Total liabilities	909,572	862,924	924,102
Deferred inflows of resources from pension	190,108	177,593	94,402
Total liabilities and deferred inflows from resources	1,099,680	1,040,517	1,018,504
Net position:			
Net investment in capital assets	76,946	76,981	62,176
Unrestricted	(687,083)	(730,222)	(768,741)
Total net position	(610,137)	(653,241)	(706,565)
Total liabilities, deferred inflows from resources and net position	$ 489,543	$ 387,276	$ 311,939

Statements of Revenues, Expenses and Changes in Net Position:

	2016	2015	2014 (As Restated)
Operating revenues	$ 42,724	$ 98,243	$ 108,228
Operating expenses	919,620	909,914	786,392
Loss from operations	(876,896)	(811,671)	(678,164)
Nonoperating revenues	920,000	864,995	645,000
Change in net position	43,104	53,324	(33,164)
Net position at beginning of year	(653,241)	(706,565)	(673,401)
Net position at end of year	$ (610,137)	$ (653,241)	$ (706,565)

Statements of Cash Flows:

	2016	2015	2014 (As Restated)
Cash flows from operating activities	$ (809,593)	$ (814,259)	$ (659,497)
Cash flows from noncapital financing activities	831,751	708,249	754,357
Cash flows from capital and related financing activities	(21,223)	(9,545)	(10,781)
Net increase (decrease) in cash	935	(115,555)	84,079
Cash at beginning of year	77,275	192,830	108,751
Cash at end of year	$ 78,210	$ 77,275	$ 192,830

Financial Highlights:

1. ROP receivables amounted to $222,343 in fiscal year 2016 compared to $134,094 in fiscal year 2015 and $2,343 in fiscal year 2014. The increase was due to the timing of funding.

2. Employee receivables amounted to $22,852 in fiscal year 2016 compared to $36,724 in fiscal year 2015 and $26,838 in fiscal year 2014. The decrease is attributed to timely submission and reconciliation of trip and travel expense reports.

3. The allowance for doubtful accounts amounted to $4,082 in fiscal year 2016 compared to $1,915 in fiscal year 2015 and $134 in fiscal year 2014 due to improved procedures in evaluating collectibility.

4. Accounts payable amounted to $59,624 in fiscal year 2016 compared to $11,906 in fiscal year 2015 and $11,126 in fiscal year 2014. The increase was due to untimely disbursement of monthly budgetary allotments from ROP.

Overview of Financial Statements, Continued

Financial Highlights, Continued:

5. At September 30, 2016, 2015 and 2014, PVA had net investment in capital assets of $76,946, $76,981 and $62,176, respectively, net of accumulated depreciation where applicable, including building, building improvements, furniture, fixtures and equipment and vehicles. The decrease is due to improved reconciliation and posting of capital asset depreciation. See note 4 to the financial statements for more detailed information on PVA's capital assets.

6. Total net position amounted to $(610,137) for fiscal year 2016 compared to $(653,241) in fiscal year 2015 and $(706,565) in fiscal year 2014 which is primarily attributed to GASB 68 requirements.

7. Operating revenues amounted to $42,724 in fiscal year 2016 compared to $98,243 in fiscal year 2015 and $108,228 in fiscal year 2014 from collection of contributions from local tourism industry partners (who are BTA 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 $47,475 in fiscal year 2016 compared to $82,058 in fiscal year 2015 and $40,830 in fiscal year 2014.

9. Operating expenses - representation and tours amounted to $312,000 in fiscal year 2016 compared to $248,062 in fiscal year 2015 and $233,887 in fiscal year 2014. The increase is attributed to more participation in trade shows especially in the European markets due to an increase in staff.

10. Operating expenses - personnel and fringe benefits amounted to $268,552 in fiscal year 2016 compared to $245,182 in fiscal year 2015 and $204,120 in fiscal year 2014. The increase is primarily due to vacant positions being filled.

11. Operating expenses - tourism development, public awareness, public relations and training amounted to $148,680 in fiscal year 2016 compared to $126,105 in fiscal year 2015 and $132,790 in fiscal year 2014. 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 $8,797 in fiscal year 2016 compared to $12,994 in fiscal year 2015 and $9,749 in fiscal year 2014, due to PVA's membership renewal with PATA.

13. Operating expenses - depreciation amounted to $21,258 in fiscal year 2016 compared to $19,735 in fiscal year 2015 and $16,541 in fiscal year 2014. The increase in depreciation is attributed to additions of furniture, fixtures and equipment and vehicles.

14. Operating expenses - communications and postage and supplies and printing amounted to $35,542 in fiscal year 2016 compared to $42,530 in fiscal year 2015 and $30,400 in fiscal year 2014.

15. Operating expenses - travel and transportation amounted to $2,990 in fiscal year 2016 compared to $4,481 in fiscal year 2015 and $7,243 in fiscal year 2014. Savings were driven by a decrease in staff traveling.

16. Operating expenses - promotional materials amounted to $4,071 in fiscal year 2016 compared to $1,959 in fiscal year 2015 and $13,100 in fiscal year 2014; however, costs were contained within budgeted allocations.

Overview of Financial Statements, Continued

Financial Highlights, Continued:

17. Operating expenses - other amounted to $57,825 in fiscal year 2016 compared to $115,013 in fiscal year 2015 and $79,920 in fiscal year 2014.

18. Nonoperating revenues amounted to $920,000 in fiscal year 2016 compared to $864,995 in fiscal year 2015 and $645,000 for fiscal year 2014.

Economic Outlook

Our overall theme for fiscal year 2016 was to turn PVA into a more marketing-focused agency. We prioritized our efforts on a) strategic planning with 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 collaboration with 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, 2015 is set forth in PVA's report on the audit of financial statements, which is dated June 22, 2016. That Discussion and Analysis explains the major factors impacting the 2015 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 nanaesingeo@pristineparadisepalau.com or fax (680) 488-1453.

PALAU VISITORS AUTHORITY

Statements of Net Position
September 30, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
Current assets:		
Cash	$ 78,210	$ 77,275
Receivables:		
Republic of Palau	222,343	134,094
Employee and other	22,852	36,724
	245,195	170,818
Less allowance for doubtful accounts	(4,082)	(1,915)
Total receivables, net	241,113	168,903
Prepaid expenses	9,185	4,093
Total current assets	328,508	250,271
Capital assets, net	76,946	76,981
Total assets	405,454	327,252
Deferred outflows of resources from pension	84,089	60,024
Total assets and deferred outflows of resources	$ 489,543	$ 387,276
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Republic of Palau	$ 24,410	$ 24,410
Accounts payable	59,624	11,906
Accrued expenses	39,996	52,382
Total current liabilities	124,030	88,698
Net pension liability	785,542	774,226
Total liabilities	909,572	862,924
Deferred inflows of resources from pension	190,108	177,593
Total liabilities and deferred inflows of resources	1,099,680	1,040,517
Commitment and contingency		
Net position:		
Net investment in capital assets	76,946	76,981
Unrestricted	(687,083)	(730,222)
Total net position	(610,137)	(653,241)
Total liabilities, deferred inflows of resources and net position	$ 489,543	$ 387,276

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Miscellaneous	$ 42,724	$ 98,243
Operating expenses:		
Representation and tours	312,000	248,062
Personnel and fringe benefits	268,552	245,182
Tourism development, public awareness, public relations and training	148,680	126,105
Contractual services	47,475	82,058
Communication and postage	22,691	33,451
Depreciation	21,258	19,735
Supplies and printing	12,851	9,079
Utilities	12,430	11,795
Registration, booth rental and membership fees	8,797	12,994
Promotional materials	4,071	1,959
Travel and transportation	2,990	4,481
Other	57,825	115,013
Total operating expenses	919,620	909,914
Loss from operations	(876,896)	(811,671)
Nonoperating revenues:		
Republic of Palau appropriation	920,000	840,000
Republic of Palau contributed capital	-	24,995
Total nonoperating revenues	920,000	864,995
Change in net position	43,104	53,324
Net position at beginning of year	(653,241)	(706,565)
Net position at end of year	$ (610,137)	$ (653,241)

See accompanying notes to financial statements.

PALAU VISITORS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	$ 42,724	$ 40,382
Cash payments to suppliers for goods and services	(585,016)	(629,136)
Cash payments to employees for services	(267,301)	(225,505)
Net cash used for operating activities	(809,593)	(814,259)
Cash flows from noncapital financing activities:		
Republic of Palau appropriations	831,751	708,249
Net cash provided by noncapital financing activities	831,751	708,249
Cash flows from capital and related financing activities:		
Capital asset acquisitions	(21,223)	(9,545)
Net cash used for capital and related financing activities	(21,223)	(9,545)
Net increase (decrease) in cash	935	(115,555)
Cash at beginning of year	77,275	192,830
Cash at end of year	$ 78,210	$ 77,275
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	$ (876,896)	$ (811,671)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	21,258	19,735
Bad debts	2,167	1,781
Noncash pension costs	(234)	(1,097)
(Increase) decrease in assets:		
Employee and other receivables	13,872	(9,886)
Prepaid expenses	(5,092)	13,300
Increase (decrease) in liabilities:		
Accounts payable	47,718	780
Unearned revenue	-	(47,975)
Accrued expenses	(12,386)	20,774
Net cash used for operating activities	$ (809,593)	$ (814,259)
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of contributed capital assets:		
Noncash increase in fixed assets	$ -	$ 24,995
Noncash increase in capital contributions	-	(24,995)
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

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

(2) Summary of Significant Accounting Policies

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

Estimates

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

Basis of Accounting

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

Budget and Appropriation

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

Cash

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand and cash held in demand or savings accounts. As of September 30, 2016 and 2015, cash was $78,210 and $77,275, respectively, and the corresponding bank balances were $83,790 and $118,154, respectively. Of these amounts, $81,717 and $114,367, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance and were FDIC insured. PVA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

(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, 2016 and 2015 was $26,832 and $22,277, respectively.

Operating and Non-Operating Revenues and Expenses

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

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

Deferred Inflows of Resources

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

(2) Summary of Significant Accounting Policies, Continued

Pensions

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

Net Position

PVA's net position is classified as follows:

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

- Restricted: net position subject to externally imposed stipulations that can be fulfilled by actions of PVA pursuant to those stipulations or that expire by the passage of time. At September 30, 2016 and 2015, 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 fiscal year 2016, the following pronouncements were implemented:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards Continued

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which replaces *Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, *and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued 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. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued 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. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. 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 multi-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, 2015, the date of the most recent valuation, plan membership consisted of the following:

Inactive members currently receiving benefits	1,507
Inactive members entitled to but not yet receiving benefits	1,151
Active members	3,120
Total members	5,778

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.

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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

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

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

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

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

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

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

- 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.

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.

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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, 2016, 2015 and 2014 were $21,458, $21,071 and $20,530, respectively, which were equal to the required contributions for the respective years then ended.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2015, for the same measurement date, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Investment Income:	7.5% per year, net of investment expenses
Expenses:	$300,000 each year
Inflation:	3.0%
Salary Increase:	3.0% per 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% per year prior to age 35; none after age 35

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Disability:

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

Retirement Age:	100% at age 60
Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor
Duty vs Non-duty related disability:	100% Duty related
Pre-retirement Beneficiary Benefit Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses
Pre-retirement Beneficiary Benefit Former Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death. 80% of active workers are assumed to be married when they retire. Males are assumed to be 3 years older than their spouses

Investment 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, 2015, the arithmetic real rates of return for each major investment class are as follows:

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Investment Rate of Return, Continued

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

Discount Rate

The discount rate used to measure the total pension liability was 3.83% at the current measurement date from 4.22% 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 2018 for 2015. For years after 2018, a discount rate of 3.87% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index for September.

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 3.83%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (2.83%) or 1.00% higher (4.83%) from the current rate.

1% Decrease 2.83%	Current Single Discount Rate Assumption 3.83%	1% Increase 4.83%
$ 908,412	$ 785,542	$ 683,398

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

Pension Liability. At September 30, 2016 and 2015, PVA reported a liability of $785,542 and $774,226, 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, 2016 and 2015, PVA's proportion was 0.3644% and 0.3790%, respectively.

Pension Expense. For the years ended September 30, 2016 and 2015, PVA recognized pension expense of $10,495 and $9,698, respectively.

	2016			
	Salary and Other Benefits	Pension Expense: Total Contributions	Pension Expense: Others	Total
Personnel and fringe benefits	$ 258,057	$ 10,729	$ (234)	$ 268,552

(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:

	2015			
	Salary and Other Benefits	Pension Expense: Total Contributions	Pension Expense: Others	Total
Personnel and fringe benefits	$ 235,484	$ 10,795	$ (1,097)	$ 245,182

Deferred Outflows and Inflows of Resources. At September 30, 2016 and 2015, PVA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 28,125	$ -	$ 2,087
Change of assumptions	64,450	32,196	49,489	44,611
Net difference between projected and actual earnings on pension plan investments	8,910	-	-	-
PVA 's contributions subsequent to measurement date	10,729	-	10,535	-
Changes in proportion and difference between PVA's contributions and proportionate share of contributions	-	129,787	-	130,895
	$ 84,089	$ 190,108	$ 60,024	$ 177,593

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, 2016 will be recognized in pension expense as follows:

Year ending September 30,	
2017	$ (30,662)
2018	$ (30,662)
2019	$ (30,634)
2020	$ (13,846)
2021	$ (7,030)
Thereafter	$ (3,914)

(4) Fixed Assets

Fixed assets of PVA as of September 30, 2016 and 2015, are summarized below:

	Estimated Useful Lives	Balance at October 1, 2015	Additions	Deletions	Balance at September 30, 2016
Building	20 years	$ 143,122	$ -	$ -	$ 143,122
Furniture, fixtures and equipment	1 - 10 years	125,466	15,928	(7,728)	133,666
Building improvements	15 years	50,869	-	(1,899)	48,970
Vehicles	3 - 5 years	29,195	5,295	-	34,490
		348,652	21,223	(9,627)	360,248
Less accumulated depreciation		(271,671)	(21,258)	9,627	(283,302)
		$ 76,981	$ (35)	$ -	$ 76,946

(4) Fixed Assets, Continued

	Estimated Useful Lives	Balance at October 1, 2014	Additions	Deletions	Balance at September 30, 2015
Building	20 years	$ 143,122	$ -	$ -	$ 143,122
Furniture, fixtures and equipment	1 - 10 years	124,096	9,545	(8,175)	125,466
Building improvements	15 years	50,869	-	-	50,869
Vehicles	3 - 5 years	4,200	24,995	-	29,195
		322,287	34,540	(8,175)	348,652
Less accumulated depreciation		(260,111)	(19,735)	8,175	(271,671)
		$ 62,176	$ 14,805	$ -	$ 76,981

(5) Commitment and Contingency

RPPLs 9-62 and 9-44 appropriated $920,000 and $840,000 to PVA for the years ended September 30, 2016 and 2015, respectively, unobligated amounts of which lapse at year end. There were no unobligated amounts related to RPPL 9-62 and 9-44 as of September 30, 2016 and 2015. PVA has recorded liabilities to ROP of $24,410 as of September 30, 2016 and 2015 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*

	2015 Valuation	2014 Valuation	2013 Valuation
Civil Service Pension Trust Fund (Plan) total net pension liability	$ 215,546,176	$ 204,281,232	$ 182,080,332
PVA's proportionate share of the net pension liability	$ 785,542	$ 774,226	$ 808,983
PVA's proportion of the net pension liability	0.3644%	0.3790%	0.4443%
PVA's covered employee payroll**	$ 176,744	$ 178,199	$ 185,614
PVA's proportionate share of the net pension liability as a percentage of its covered employee payroll	444.45%	434.47%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	11.54%	14.01%	15.84%

For the years ended September 30, 2014 and 2013, covered employee payroll presented above has been changed from amounts previously reported of $140,436 and $164,633, respectively.

* 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*

	2015 Valuation	2014 Valuation	2013 Valuation
Actuarially determined contribution	$ 39,724	$ 40,269	$ 44,722
Contribution in relation to the actuarially determined contribution	10,535	10,493	11,179
Contribution (excess) deficiency	$ 29,189	$ 29,776	$ 33,543
PVA's covered-employee payroll**	$ 176,744	$ 178,199	$ 185,614
Contribution as a percentage of covered-employee payroll	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.