



REPUBLIC OF PALAU

FISCAL YEAR 2021

A Financial Statement Analysis Using Indicators of the Financial Health and Success and a Status Report of Audit Findings, Timeliness and Exception Resolution (A.F.T.E.R.) of the Republic of Palau as of and for the Year Ended September 30, 2021



This presentation is available online at <http://www.pitiviti.org>

WHAT IS THE PERFORMETER®?

- An analysis that takes a government's financial statements and converts them into useful and understandable measures of financial performance
- Financial ratios and a copyrighted analysis methodology are used to arrive at an overall rating of 0-10
- The overall reading is a barometer of Palau's financial health and performance

HOW TO USE THE PERFORMETER®

- Use the individual ratios to identify financial warning signals
- Use the overall rating as a collective benchmark of financial health and success of Palau as a whole
- Use the comparisons to prior years to monitor trends in financial indicators

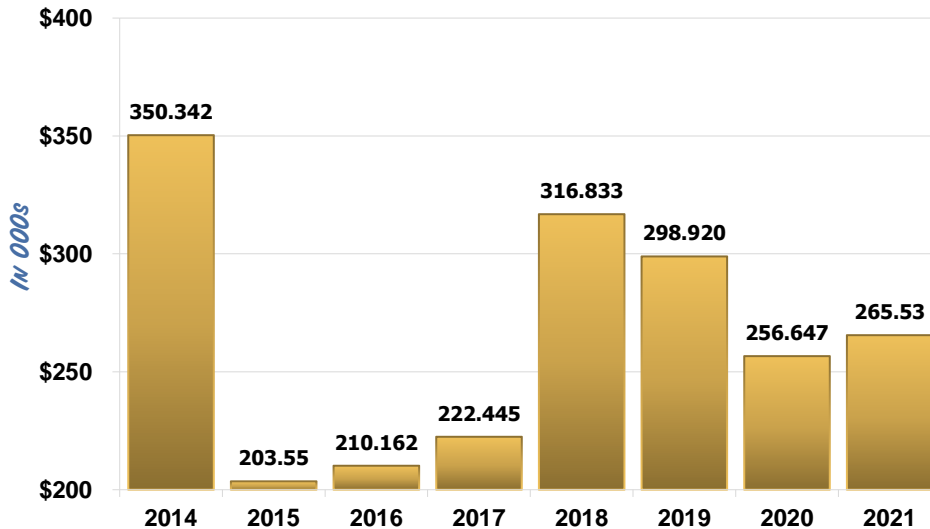
LIMITATIONS OF THE PERFORMETER®

- The Performer® should not be used as the only source of financial information to evaluate Palau's performance and condition
- The analysis is an overall rating of Palau as a whole and not of specific activities, funds or units
- The Performer® is based on Crawford & Associates' professional judgment and is limited as to its intended use

CHANGE IN NET POSITION

DID OUR OVERALL FINANCIAL CONDITION IMPROVE, DECLINE OR REMAIN STEADY OVER THE PAST YEAR?

NET POSITION AT YEAR END



Net position includes all assets of Palau, except for fiduciary funds held for the benefit of others. It is measured as the difference between total assets, including capital assets, plus deferred outflows, netted against total liabilities, including long-term debt, and deferred inflows.

For the year ended September 30, 2021, total net position resulting from current year transactions increased by \$8.9 million or 3.5% from the prior year. The increase was indicative of overall revenues earned for 2021 exceeding the revenues incurred for the year. The increase in the net position was primarily due to the Compact Trust Fund contribution in the current year.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------|-------|------|-------|------|------|-------|-------|--------|------|
| 1.7% | -3.4% | 1.1% | -8.5% | 3.2% | 5.8% | 42.4% | -5.7% | -14.1% | 3.5% |

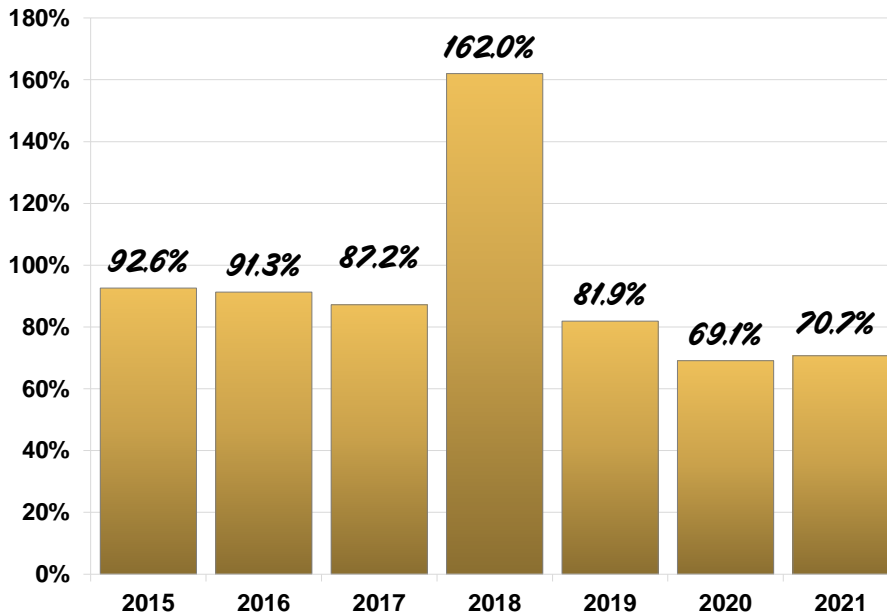
PERFORMETER®
RATING

6.7

INTERGENERATIONAL EQUITY

WHO IS PAYING FOR TODAY'S COSTS OF SERVICES?

REVENUES AS A % OF ANNUAL EXPENSES



A measure of whether the government lived within its means in the measurement year, or was required to use prior year resources to fund a portion of current year costs, or shifted the funding of some of the current year costs to future periods.

For the year ended September 30, 2020, Palau funded 70.7% of their current year expenses with current year operational revenues. This indicates that Palau's current year costs were partially funded with current year operational revenues and contributions from permanent funds (Compact investment fair value increases) thereby creating a larger operational deficit. It is considered a poor percentage, but it represents a slight increase in the ratio when compared to the ratio of the prior year.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------|-------|-------|-------|-------|-------|--------|-------|-------|-------|
| 78.3% | 80.1% | 89.8% | 92.6% | 91.3% | 87.2% | 162.0% | 81.9% | 69.1% | 70.7% |

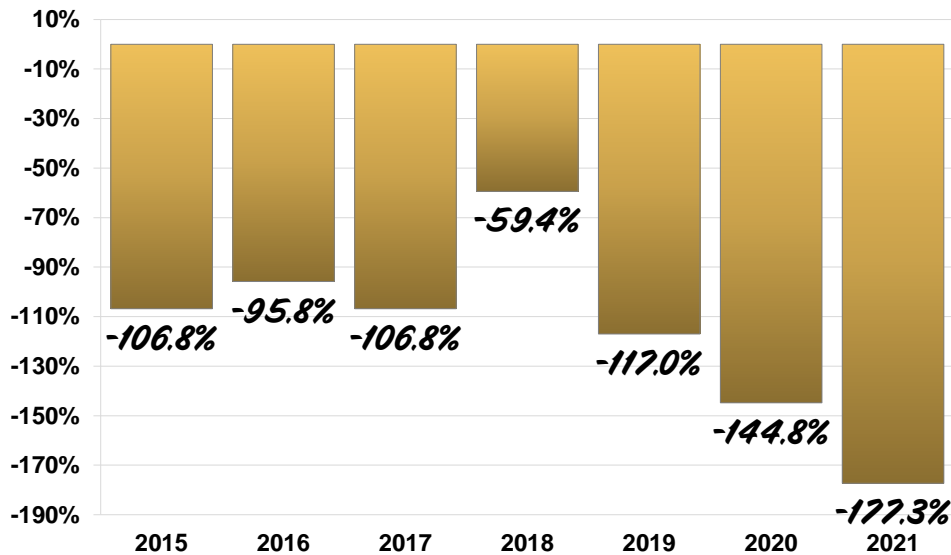
PERFORMETER®
RATING

0

LEVEL OF UNRESTRICTED NET POSITION


HOW DO OUR TOTAL RAINY DAY FUNDS LOOK?

UNRESTRICTED NET POSITION (DEFICIT) AS A % OF ANNUAL REVENUES



The level of total unrestricted net position is an indication of the amount of unexpended and available resources Palau has at a point in time to fund emergencies, shortfalls or other unexpected needs.

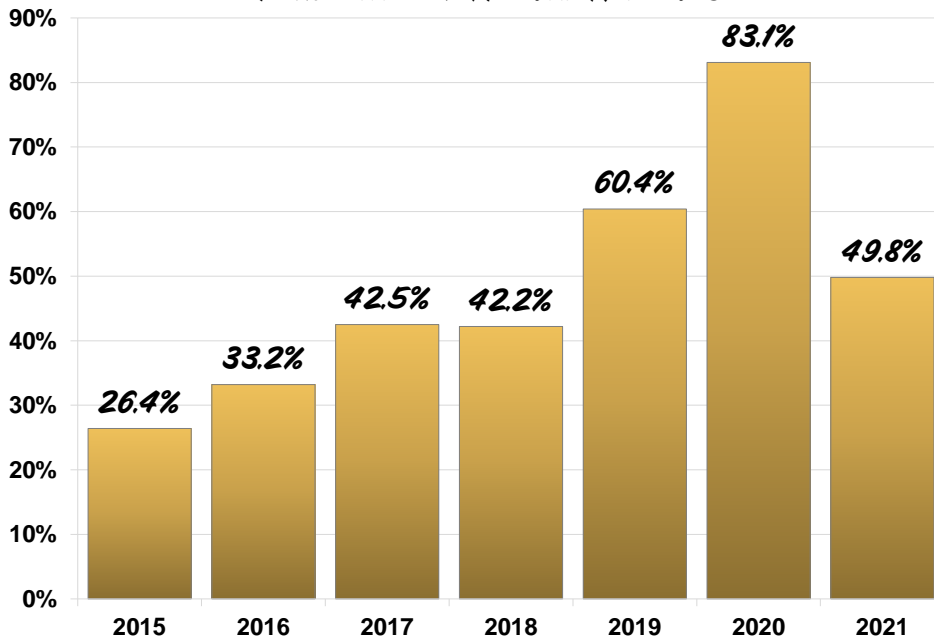
For the year ended September 30, 2021, Palau's total unrestricted net position was actually in a deficit position that approximated \$212.1 million, or 177% of annual total revenues. Also, this represents a significant increase in size of the deficit-to-revenue percentage ratio calculated in the prior year.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | PERFORMETER® RATING |
|--------|--------|-------|---------|--------|---------|--------|-------|---------|---------|---|
| -14.7% | -14.7% | -7.8% | -106.8% | -95.8% | -106.8% | -59.4% | -117% | -144.8% | -177.3% |  |

LEVEL OF UNASSIGNED FUND BALANCE

HOW DOES OUR CARRYOVER LOOK?

UNASSIGNED FUND BALANCE (DEFICIT) AS A PERCENTAGE OF ANNUAL REVENUES



The level of unassigned fund balance is an indication of the amount of unexpended, unencumbered and available resources Palau has at a point in time to carryover into the next fiscal year to fund budgetary emergencies, shortfalls or other unexpected needs. In this analysis, only the General Fund is considered.

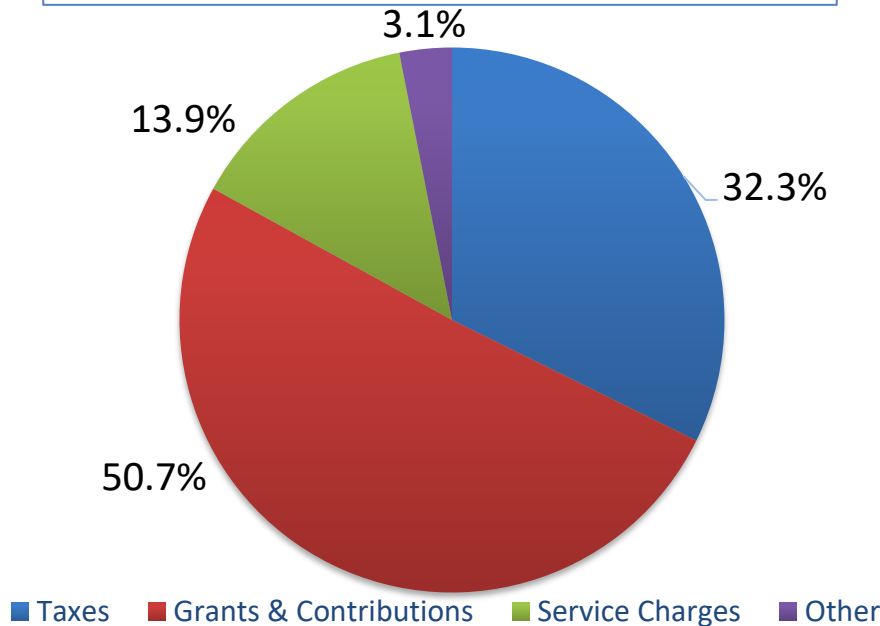
For the year ended September 30, 2021, Palau's unassigned fund balance of the General Fund was 49.8% of annual revenues. This is a very healthy position for the General Fund to be in but is a significant decline from the ratio of the prior period.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | PERFORMETER® RATING |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------------------|
| -13.4% | -6.7% | 13.3% | 26.4% | 33.2% | 42.5% | 42.2% | 60.4% | 83.1% | 49.8% | 10 |

REVENUE DISPERSION

HOW HEAVILY ARE WE RELYING ON REVENUE SOURCES WE CAN'T DIRECTLY CONTROL?

2021 REVENUE PERCENTAGES BY SOURCE



The percentage dispersion of revenue by source indicates how dependent Palau is on certain types of revenue. The more dependent Palau is on revenue sources beyond its direct control, such as grants, the less favorable the dispersion.

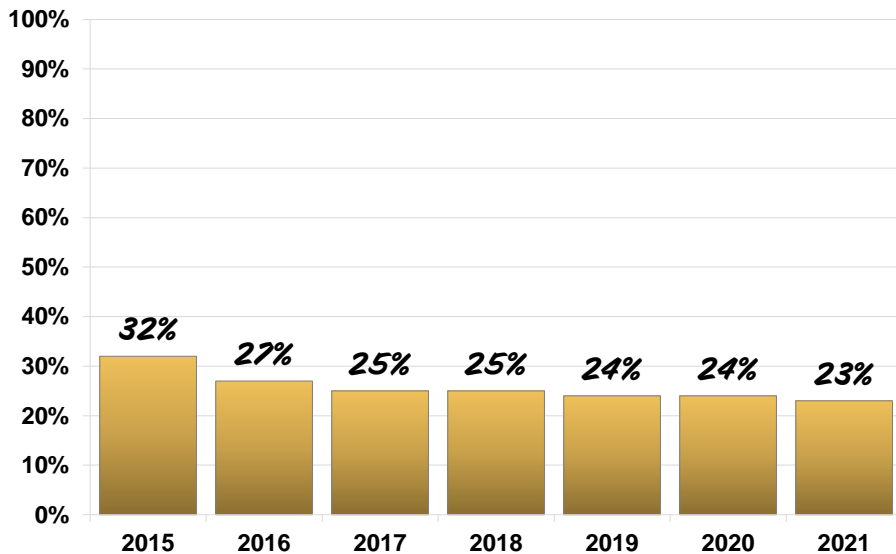
For the year ended September 30, 2021, Palau had direct control over approximately 46% of its revenues. This ratio indicates Palau has some exposure, as do most governments, to financial difficulties due to reliance on non-controlled revenue (54%). This ratio is a decrease when compared to ratios of prior periods, due to a decrease in taxes and charges for service revenue.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | PERFORMETER® RATING |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------------------|
| 51.6% | 54.5% | 55.8% | 61.0% | 58.3% | 69.0% | 38.1% | 65.2% | 52.5% | 46.2% | 4.5 |

CAPITAL ASSET CONDITION

HOW MUCH USEFUL LIFE DO WE HAVE LEFT IN OUR CAPITAL ASSETS?

PERCENTAGE OF CAPITAL ASSETS' USEFUL LIFE REMAINING



The capital asset condition ratio compares capital assets cost to accumulated depreciation to determine the overall percentage of useful life remaining. A low percentage could indicate an upcoming need to replace a significant amount of capital assets.

At September 30, 2021, Palau's depreciable capital assets amounted to \$497 million while accumulated depreciation totaled \$380 million. This indicates that, on the average, Palau's capital assets have 23% of their useful lives remaining. This represent a relatively consistent ratio when compared to the prior period.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------|------|------|------|------|------|------|------|------|------|
| 46% | 42% | 38% | 32% | 27% | 25% | 25% | 24% | 24% | 23% |

**PERFORMETER®
RATING**

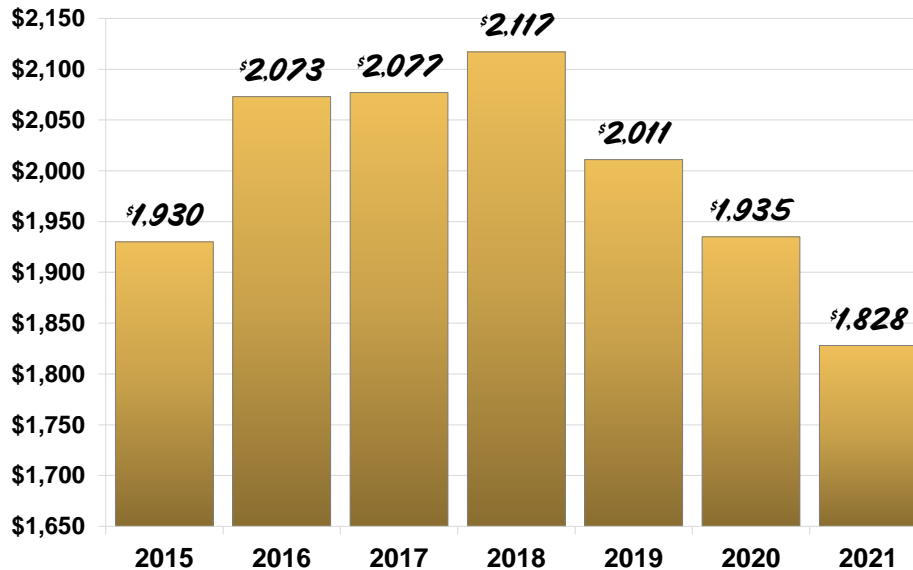


10

FINANCING MARGIN - TAXES

WILL OUR CITIZENS BE WILLING TO PAY INCREASED TAXES FOR OPERATIONS OR CAPITAL IMPROVEMENTS, IF NEEDED?

TOTAL TAXES PER CAPITA



The financial ratio of taxes per capita is an indication of Palau’s tax burden on its citizens and other taxpayers. The ratio includes all taxes paid the local population including gross receipts tax, income taxes, and other taxes.

For the year ended September 30, 2021, total taxes amounted to \$38 million or \$1,828 per capita. This indicates a relatively moderate tax burden on the citizens when compared with other insular governments and represents a slight decrease in the ratio when compared to the ratio from the prior period.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| \$1,437 | \$1,682 | \$1,656 | \$1,930 | \$2,073 | \$2,077 | \$2,117 | \$2,011 | \$1,935 | \$1,828 |

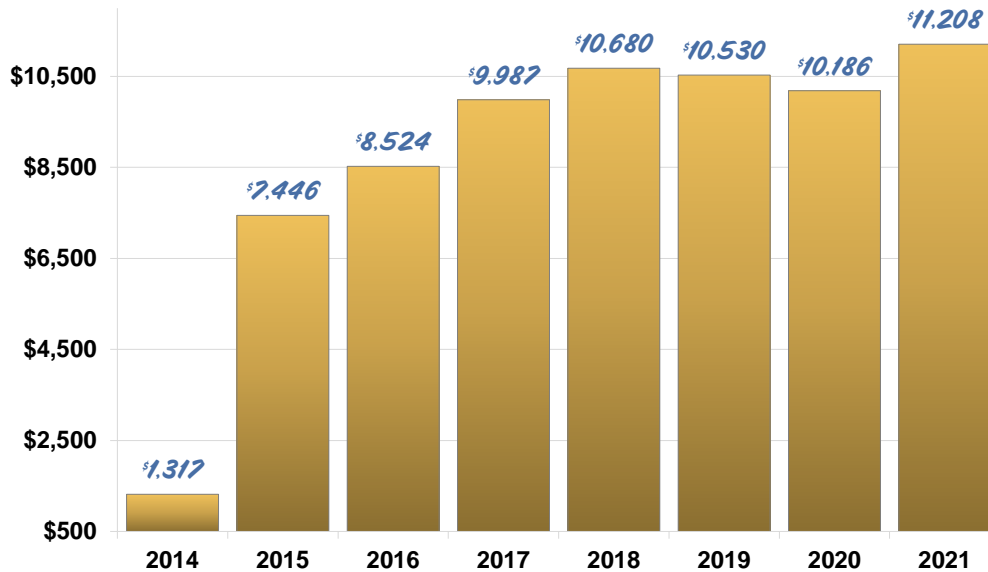
**PERFORMETER®
RATING**

6.3

FINANCING MARGIN - DEBT

WILL WE BE ABLE TO ISSUE MORE DEBT, IF NEEDED?

DEBT PER CAPITA



The financial ratio of debt per capita is an indication of Palau’s debt burden on its citizens and other taxpayers.

For the year ended September 30, 2021, Palau had \$234 million of long-term debt or \$11,208 per capita, which is a relatively high debt burden on its citizens when compared to other insular governments. It also represents an increase in the ratio of debt per capita from the prior year.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------|---------|---------|---------|---------|---------|----------|----------|----------|----------|
| \$1,187 | \$1,110 | \$1,317 | \$7,446 | \$8,524 | \$9,987 | \$10,680 | \$10,530 | \$10,186 | \$11,208 |

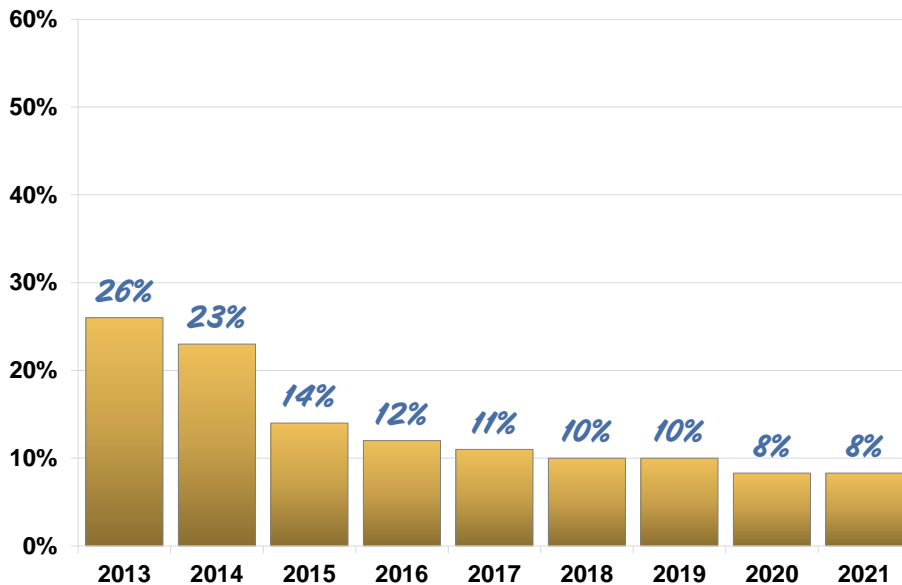
**PERFORMETER®
RATING**



PENSION PLAN FUNDING RATIO


WILL WE BE ABLE TO PAY OUR EMPLOYEES WHEN THEY RETIRE?

PLAN NET POSITION AS A PERCENTAGE OF NET PENSION LIABILITY



The pension funding ratio compares the net position of the pension plan trust fund to the total pension liability for pension benefits. A percentage less than 100% indicates the plan is under-funded at the valuation date.

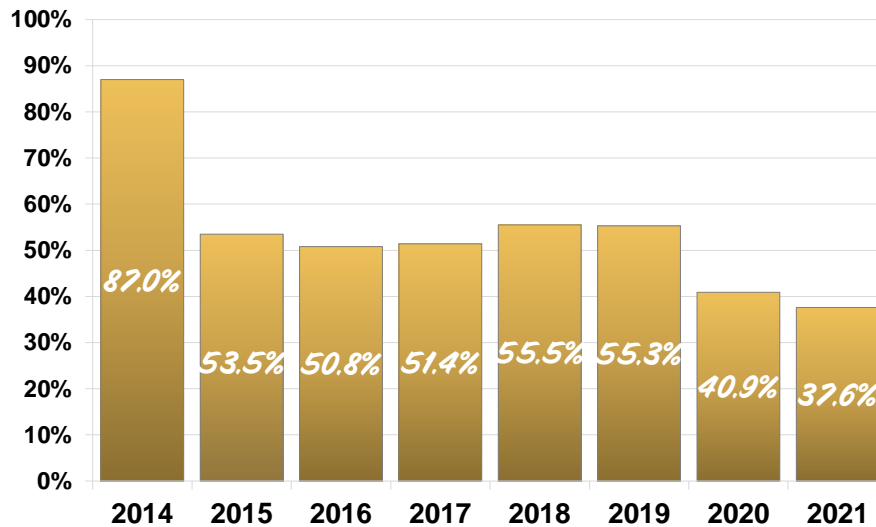
At September 30, 2021, Palau’s pension plan trust fund net position was 8% of the accrued total pension liability, indicating the plan was less than one-tenth. This is an unhealthy position for civil service pension fund to be in and equals the lowest funded percentage in any period measured.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | PERFORMETER® RATING |
|------|------|------|------|------|------|------|------|------|------|---|
| 26% | 26% | 23% | 14% | 12% | 11% | 10% | 10% | 8% | 8% |  |

DEBT TO ASSETS

WHO REALLY OWNS PALAU?

PERCENTAGE OF EQUITY IN ASSETS



The debt to assets ratio measures the extent to which Palau had funded its assets with debt. The lower the debt percentage, the more equity Palau has in its assets.

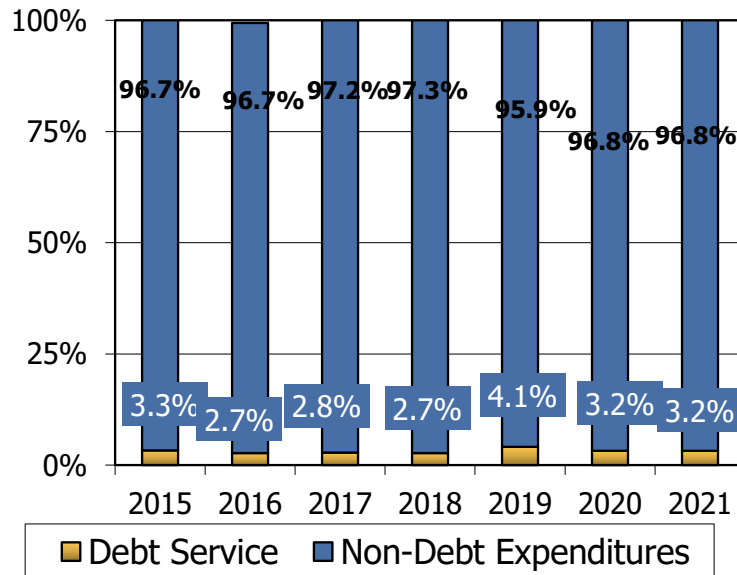
At September 30, 2021, approximately 62.4% of Palau's \$613 million of total assets were funded with debt or other obligations, resulting in equity position of 37.6%. This is approximately the ratio of the prior year and indicates that for each dollar of assets it owns, Palau owes 62.4 cents of that dollar to others.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | PERFORMETER® RATING |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------------------|
| 13.9% | 13.0% | 13.1% | 46.5% | 49.2% | 48.6% | 44.5% | 44.7% | 59.1% | 62.4% | 3.4 |

DEBT SERVICE LOAD

HOW MUCH OF OUR ANNUAL NON-CAPITAL BUDGET IS LOADED WITH DISBURSEMENTS TO PAY OFF LONG-TERM DEBT

Percentage of Debt Service to Non-Debt Expenditures



The debt service load ratio measures the extent to which Palau's non-capital expenditures were comprised of debt service payments on long-term debt.

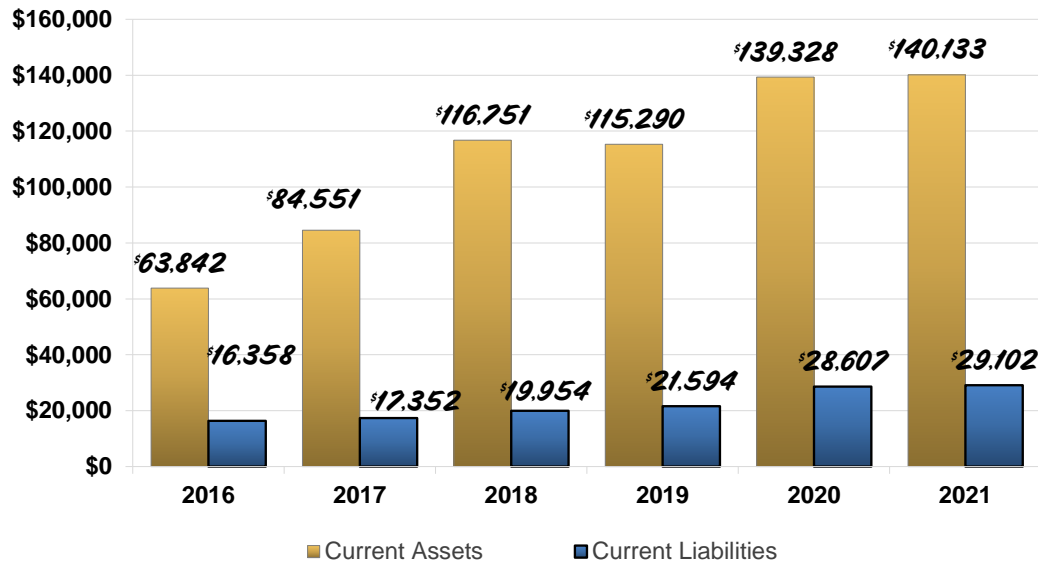
For the year ended September 30, 2021, Palau's total non-capital expenditures amounted to \$159.4 million, of which \$5.0 million (or 3.2%), were payments for principal and interest on long-term debt. In our model, this is considered an excellent ratio and indicates that for every dollar Palau spent on non-capital items, 3.2 cents of that dollar was used for debt service. Restatements for FY 2015 through FY 2017 have been made to this score and the overall score due to the impact of this ratio.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | PERFORMETER® RATING |
|------|------|------|------|------|------|------|------|------|------|------------------------|
| N/A | N/A | N/A | 3.3% | 2.7% | 2.8% | 2.7% | 4.1% | 3.2% | 3.2% | 10 |

CURRENT RATIO

WILL OUR VENDORS AND EMPLOYEES BE PLEASED WITH OUR ABILITY TO PAY THEM ON TIME?

CURRENT ASSETS COMPARED TO CURRENT LIABILITIES



The current ratio is one measure of Palau’s ability to pay its short-term obligations. The current ratio compares total current assets and liabilities. A current ratio of 2.00 to 1 indicates good current liquidity and an ability to meet the short-term obligations. This ratio includes only Palau’s General Fund, the main operating fund of the government.

At September 30, 2021, Palau had a General Fund ratio of current assets to current liabilities of 4.82 to 1. This indicates that for every dollar of current liabilities, Palau had \$4.82 to fund them. This is considered an excellent ratio, but it is a slight decline when compared to the ratio of the prior period.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------|------|------|------|------|------|------|------|------|------|
| 1.02 | 1.01 | 1.72 | 2.86 | 3.90 | 4.87 | 5.85 | 5.34 | 4.87 | 4.82 |

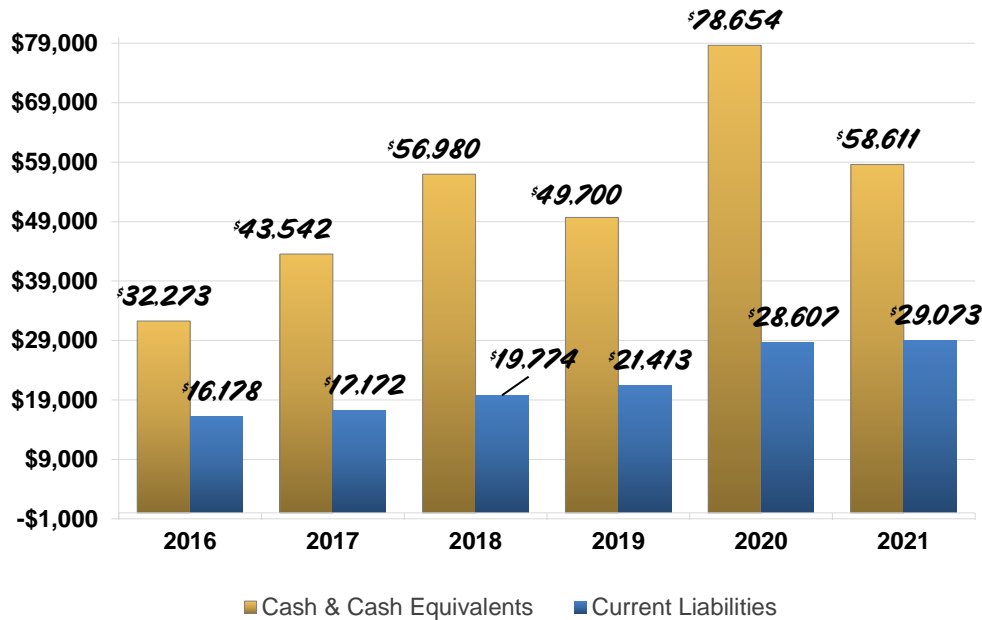
**PERFORMETER®
RATING**

10

QUICK RATIO

HOW IS OUR SHORT-TERM CASH POSITION?

CASH AND CASH EQUIVALENTS COMPARED TO CURRENT LIABILITIES



The quick ratio is another, more conservative, measure of Palau’s ability to pay its short-term obligations. The quick ratio compares total cash and short-term investments to current liabilities. A quick ratio of 1.00 to 1 indicates adequate current liquidity and an ability to meet the short-term obligations with cash. This ratio includes only the General Fund, Palau’s main operating fund.

At September 30, 2021, Palau had a General Fund ratio of cash and cash equivalents to current liabilities of 2.02 to 1. This indicates that for every dollar of current liabilities, Palau had 2.02 dollars in cash and cash equivalents to fund them. This is still considered an excellent ratio, but a decline from the ratio of the prior period.

| 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------|------|------|------|------|------|------|------|------|------|
| 0.59 | 0.58 | 0.93 | 1.87 | 1.99 | 2.54 | 2.88 | 2.32 | 2.75 | 2.02 |

PERFORMETER®
RATING

10

PERFORMETER® READING

HOW WAS OUR OVERALL FINANCIAL PERFORMANCE?

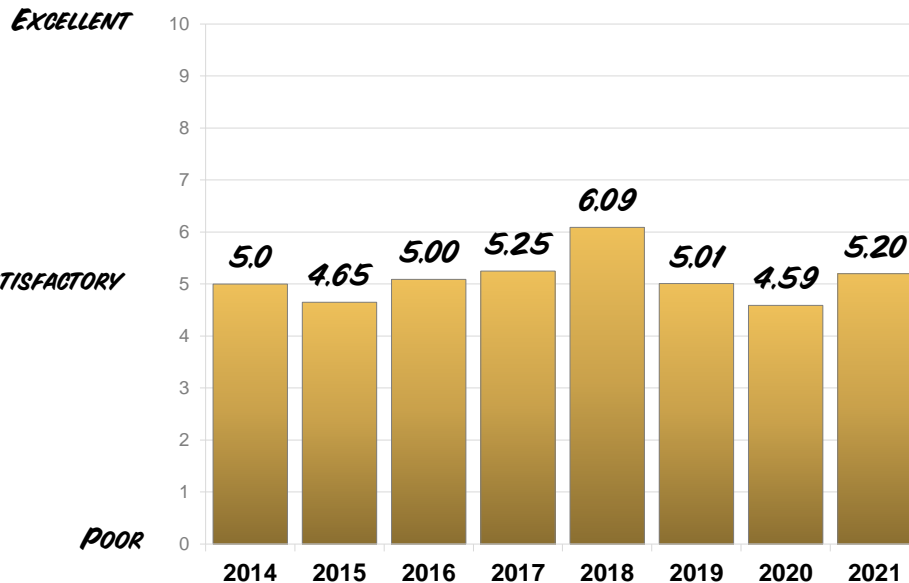
For the 2021 fiscal year, the readings by ratio category were as follows:

| | |
|-----------------------|------|
| Financial Position | 5.96 |
| Financial Performance | 4.04 |
| Financial Capability | 4.76 |

The 2021 reading of 5.20 indicates the evaluator's opinion that the Palau Government's overall financial health and performance increased during the fiscal year ended September 30, 2021, and is now slightly above satisfactory reading.

Palau has maintained a relatively consistent level of scoring over the past 13 years. However, Palau's overall financial health did improve during the 2021 fiscal year. The primary reasons for the satisfactory reading are the high level General Fund's level of unassigned fund balance, the low debt service load ratio, the high readings of current and quick ratios, and the high overall above satisfactory financial position reading. Also, the improvement in financial performance ratios led to the increase in the current year score.

OVERALL READING



FY 21 OVERALL PERFORMETER® READING: 5.20

| <i>RATIO</i> | <i>FY 2016</i> | <i>FY 2017</i> | <i>FY 2018</i> | <i>FY 2019</i> | <i>FY 2020</i> | <i>FY 2021</i> |
|--|----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| <i>CHANGE IN NET POSITION</i> | <i>3.2%</i> | <i>5.8%</i> | <i>42.4%</i> | <i>-5.7%</i> | <i>-14.1%</i> | <i>3.5%</i> |
| <i>INTERGENERATIONAL EQUITY</i> | <i>91.3%</i> | <i>87.2%</i> | <i>162%</i> | <i>81.9%</i> | <i>69.1%</i> | <i>70.7%</i> |
| <i>LEVEL OF UNRESTRICTED NET POSITION</i> | <i>-95.8%</i> | <i>-106.8%</i> | <i>-59.4%</i> | <i>-117%</i> | <i>-144.8%</i> | <i>-177%</i> |
| <i>LEVEL OF UNASSIGNED FUND BALANCE</i> | <i>33.2%</i> | <i>42.5%</i> | <i>42.2%</i> | <i>60.4%</i> | <i>83.1%</i> | <i>49.8%</i> |
| <i>REVENUE DISPERSION</i> | <i>58.3%</i> | <i>69%</i> | <i>38.1%</i> | <i>65.2%</i> | <i>52.5%</i> | <i>46.2%</i> |
| <i>CAPITAL ASSET CONDITION</i> | <i>27%</i> | <i>25%</i> | <i>25%</i> | <i>24%</i> | <i>24%</i> | <i>23%</i> |
| <i>FINANCING MARGIN - TAXES</i> | <i>\$2.073</i> | <i>\$2.077</i> | <i>\$2.117</i> | <i>\$2.011</i> | <i>\$1.935</i> | <i>\$1.828</i> |
| <i>FINANCING MARGIN - DEBT/OBLIGATIONS</i> | <i>\$8.524</i> | <i>\$9.987</i> | <i>\$10.680</i> | <i>\$10.530</i> | <i>\$10.186</i> | <i>\$11.208</i> |
| <i>PENSION PLAN FUNDING</i> | <i>12%</i> | <i>12%</i> | <i>10%</i> | <i>10%</i> | <i>10%</i> | <i>15%</i> |
| <i>DEBT SERVICE LOAD</i> | <i>2.7%</i> | <i>2.8%</i> | <i>2.7%</i> | <i>4.1%</i> | <i>3.2%</i> | <i>3.2%</i> |
| <i>DEBT TO ASSETS</i> | <i>49.2%</i> | <i>48.6%</i> | <i>44.5%</i> | <i>44.7%</i> | <i>59.1%</i> | <i>62.4%</i> |
| <i>CURRENT RATIO</i> | <i>3.90</i> | <i>4.87</i> | <i>5.85</i> | <i>5.34</i> | <i>4.87</i> | <i>4.82</i> |
| <i>QUICK RATIO</i> | <i>1.99</i> | <i>2.54</i> | <i>2.88</i> | <i>2.32</i> | <i>2.75</i> | <i>2.02</i> |
| <i>OVERALL PERFORMETER READING</i> | <i>5.09*</i> | <i>5.25*</i> | <i>6.09</i> | <i>5.01</i> | <i>4.59</i> | <i>5.20</i> |

**NOTES YEARS THAT THE OVERALL SCORE HAS BEEN RESTATED FOR COMPARISON PURPOSES*

PERFORMETER INDIVIDUAL RATIOS - SUMMARY AND COMPARISON TO PRIOR YEARS

WHAT IS THE A.F.T.E.R. ANALYSIS?

- The A.F.T.E.R. Analysis is very simply an analysis of the status of audit findings, the timeliness of the submission of the audit and the resolution of certain audit exceptions, this analysis can be used to track a government's progress towards eliminating its most significant findings and exceptions, along with tracking the timeliness of submission to the Federal Clearinghouse.



| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|-------------|-----------|-----------|-----------|-----------|-----------|-----------|---------------------|
| Number of F.S. Opinion Qualifications/Exceptions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Number of Major Federal Program Qualifications/Exceptions | 6 | 9 | 5 | 3 | 1 | 2 | 0 | 2 |
| Number of F.S. Findings | | | | | | | | |
| A. Internal Control and Compliance | 0 | 0 | 0 | 1 | 3 | 1 | 0 | 0 |
| B. Internal Control Only | 3 | 1 | 1 | 5 | 0 | 3 | 1 | 2 |
| C. Compliance Only | <u>1</u> | <u>0</u> | <u>1</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>2</u> | <u>0</u> |
| TOTAL | <u>4</u> | 1 | 2 | 6 | 3 | 4 | 3 | 2 |
| Percentage of Findings Repeated | 50% | 0% | 0% | 33% | 100% | 75% | 33% | 0% |
| Number of Single Audit Findings | | | | | | | | |
| A. Internal Control and Compliance | 9 | 17 | 11 | 7 | 3 | 3 | 3 | 6 |
| B. Internal Control Only | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| C. Compliance Only | <u>1</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTAL | <u>10</u> | 17 | 11 | 7 | 3 | 3 | 3 | 6 |
| Percentage of S.A. Findings Repeated | 80% | 29% | 73% | 43% | 67% | 0% | 0% | 16.7% |
| Number of months after Y/E the F.S. were Released | 9 | 9.5 | 9.5 | 9 | 9 | 16.5 | 31 | 38.5 |
| Number of Qualifications/Exceptions Related to C.U. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| \$ of Questioned Costs-Current Year | \$72,875 | \$354,018 | \$97,206 | \$0 | \$174,130 | \$44,448 | \$250,000 | \$14755 |
| \$ of Questioned Costs- Cumulative | \$826,527 | \$753,136 | \$319,767 | \$314,686 | \$488,816 | \$359,134 | \$512.429 | Unable to determine |
| \$ of Questioned Costs Resolved – Current Year | \$1,936,511 | \$427,409 | \$204,848 | \$57,338 | \$0 | \$174,130 | \$44,448 | Unable to determine |

THANK YOU!

- We would like to commend and thank the Government of Palau's management, the U.S. Department of the Interior and the Graduate School USA for allowing us to present this financial analysis. We hope it serves as a useful and understandable compliment to Palau's annual financial report.
- This report is available online at <http://www.pitiviti.org>.
- Visit our website at <http://www.crawfordcpas.com> for other useful tools for governments.