



REPUBLIC OF PALAU

FISCAL YEAR 2016

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, 2016



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 1-10
- 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

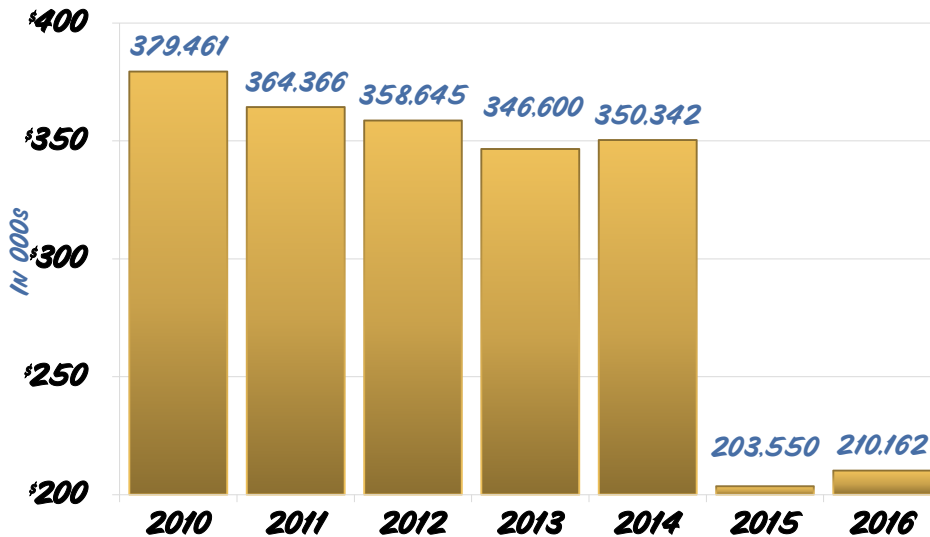
LIMITATIONS OF THE PERFORMETER®

- 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.

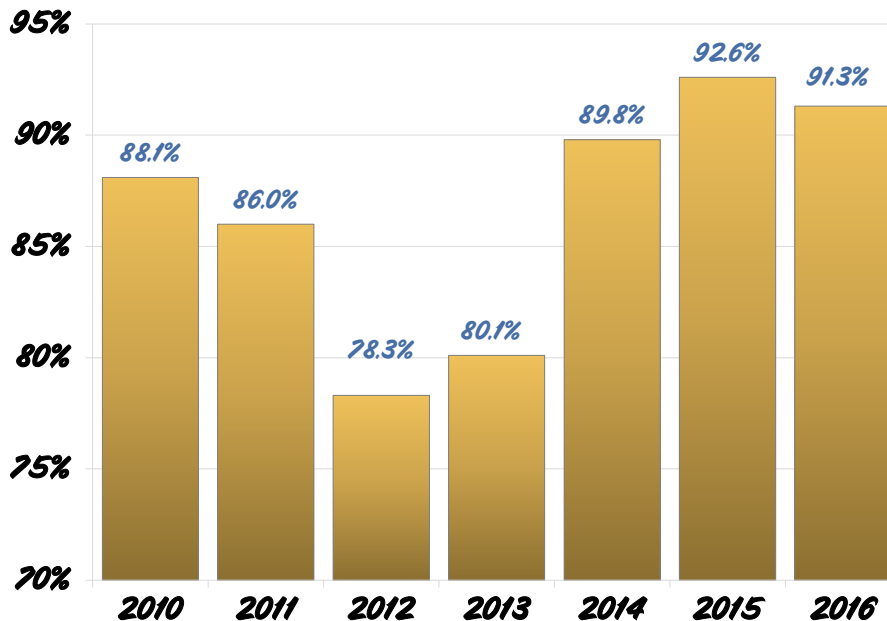
For the year ended September 30, 2016, total net position resulting from current year operations increased by \$6.6 million or 3.2% from the prior year. The increase was indicative of overall expenses for 2016 not exceeding the revenues generated for the year. The 2015 large decline of net position shown in the graph to the left is a result of the implementation of the GASB 68 pension standard, which resulted in a downward restatement of the 2014 ending net position in the amount of approximately \$128 million.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
17.6%	-10.4%	-5.4%	-3.3%	-4%	1.7%	-3.4%	1.1%	-8.5%	3.2%

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.

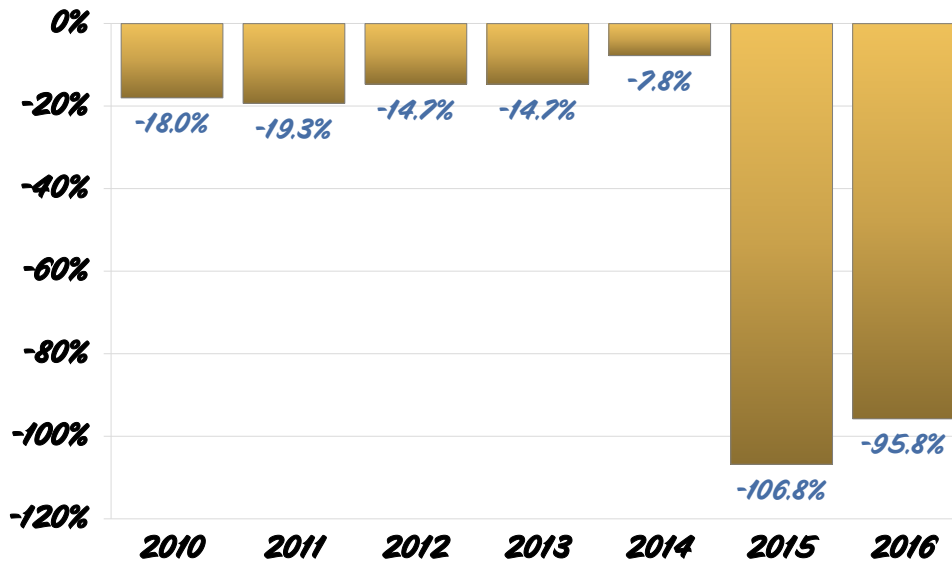
For the year ended September 30, 2016, Palau funded 91.3% of their expenses with current year revenues, the ninth consecutive period in which the ratios have been considered lower than preceding periods. This indicates that Palau's current year costs were only partially funded with current year revenues, with the rest being funded with carryover revenues from prior years, or by alternatively creating a larger operational deficit.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
181%	76.6%	77.8%	88.1%	86%	78.3%	80.1%	89.8%	92.6%	91.3%

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.

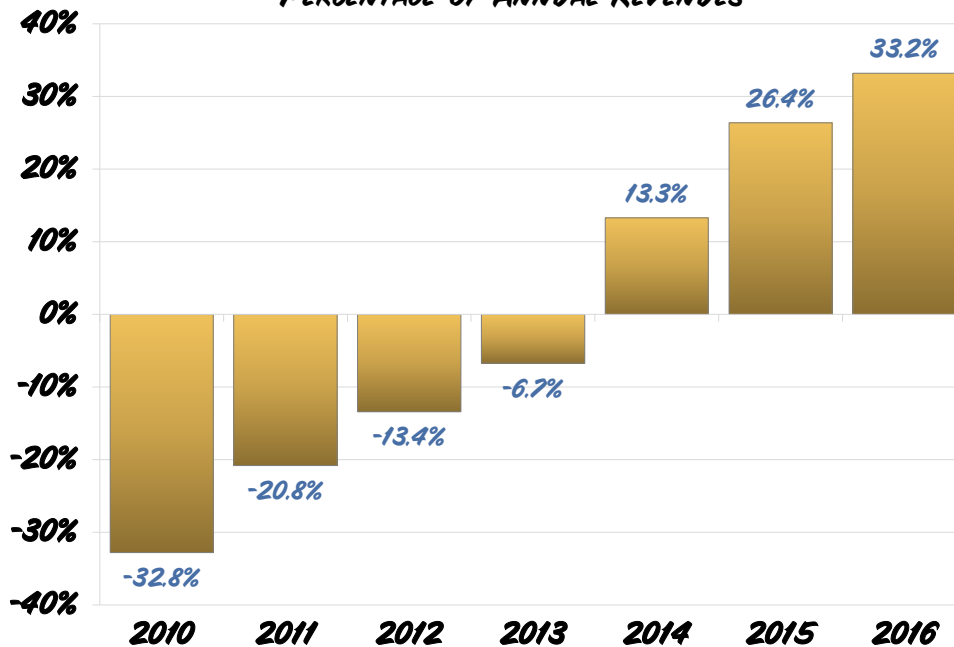
For the year ended September 30, 2016, Palau's total unrestricted net position was actually in a deficit position that approximated \$125.1 million, or 95.8% of annual total revenues. This is a slight improvement in the ratio when compared to the prior period, whose decline was primarily due to the implementation of the GASB 68 pension statement, which reported a net pension liability in the amount of \$137 million for the first time.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
-1.1%	-11.2%	-18.9%	-18%	-19.3%	-14.7%	-14.7%	-7.8%	-106.8%	-95.8%

LEVEL OF UNASSIGNED FUND BALANCE

HOW DOES OUR CARRYOVER LOOK?

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



The level of budgetary 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.

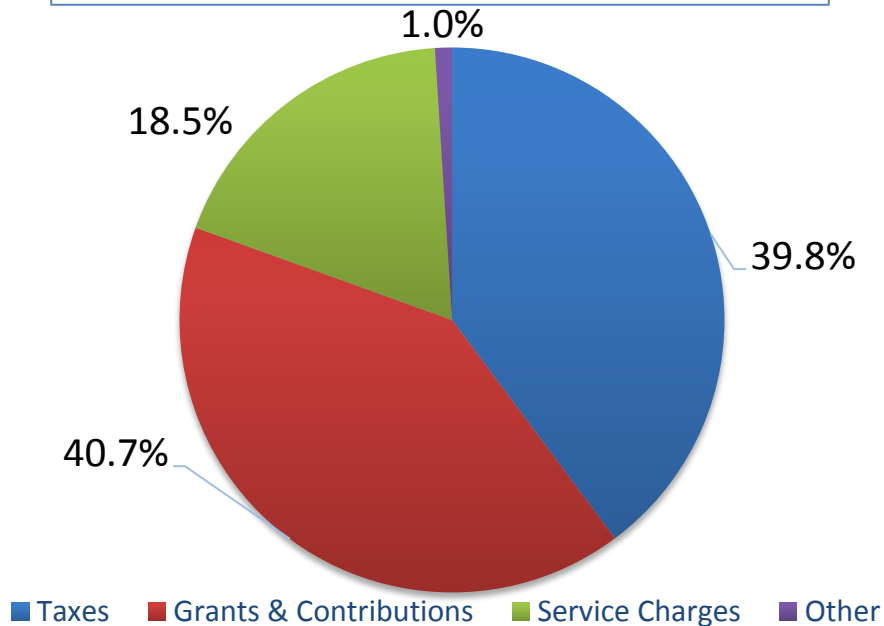
For the year ended September 30, 2016, Palau's unassigned fund balance of the General Fund was 33.2% of annual revenues. This is a very healthy position for the General Fund to be in, and an improvement from the prior period.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
-15%	-18.9%	-27.8%	-32.8%	-20.8%	-13.4%	-6.7%	13.3%	26.4%	33.2%

REVENUE DISPERSION

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

2016 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.

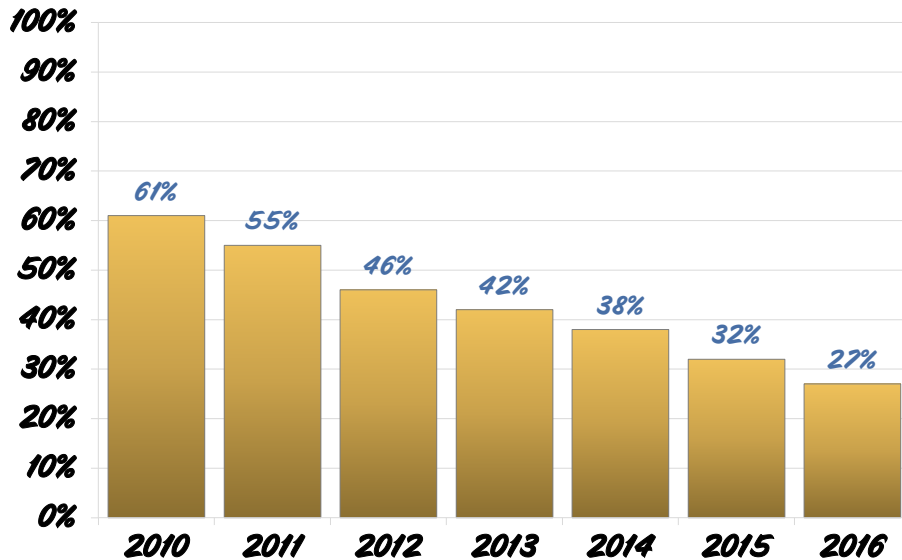
For the year ended September 30, 2016, Palau had direct control over 58.3% of its revenues. This ratio indicates Palau has some exposure, as do most governments, to financial difficulties due to reliance on non-controlled revenue (41.7%). This ratio is a slight decrease when compared to ratios of prior periods.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
23.6%	48.4%	44.9%	39%	50.2%	51.6%	54.5%	55.8%	61%	58.3%

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.

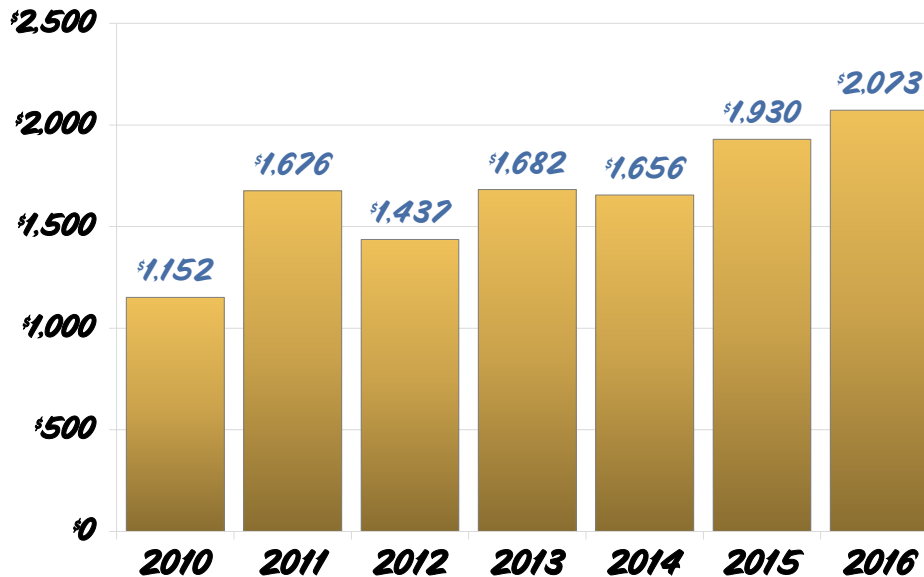
At September 30, 2016, Palau's depreciable capital assets amounted to \$410 million while accumulated depreciation totaled \$301 million. This indicates that, on the average, Palau's capital assets have 27% of their useful lives remaining. This continues a trend of a eight-year decline in the ratio and now remains below a satisfactory level.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
66%	74%	68%	61%	55%	46%	42%	38%	32%	27%

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.

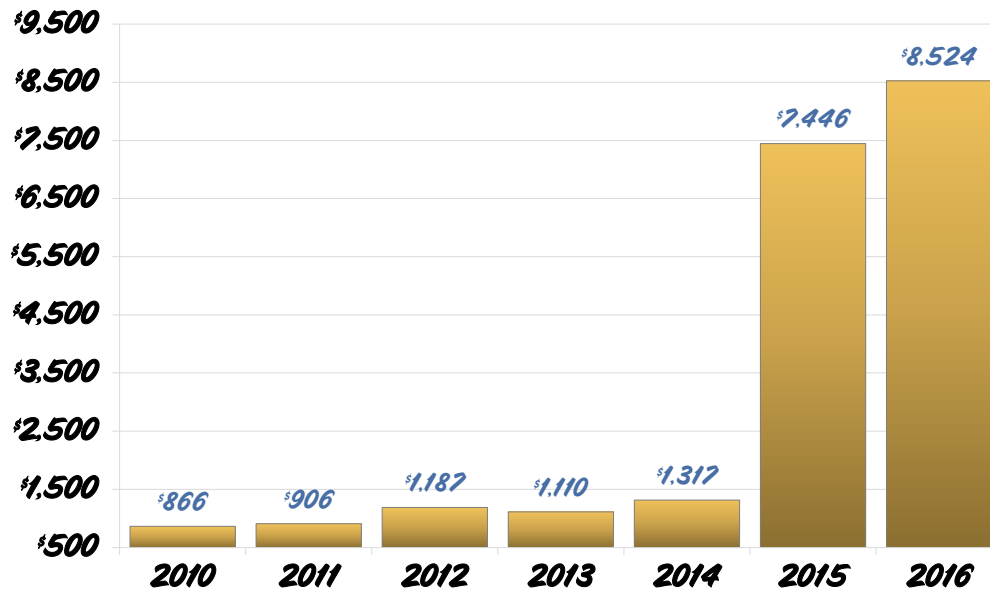
For the year ended September 30, 2016, total taxes amounted to \$43 million or \$2,073 per capita. This indicates a relatively moderate tax burden on the citizens when compared with other insular governments, and represents an increase when compared to the ratio from the prior period.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
\$1,265	\$1,399	\$1,253	\$1,152	\$1,676	\$1,437	\$1,682	\$1,656	\$1,930	\$2,073

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.

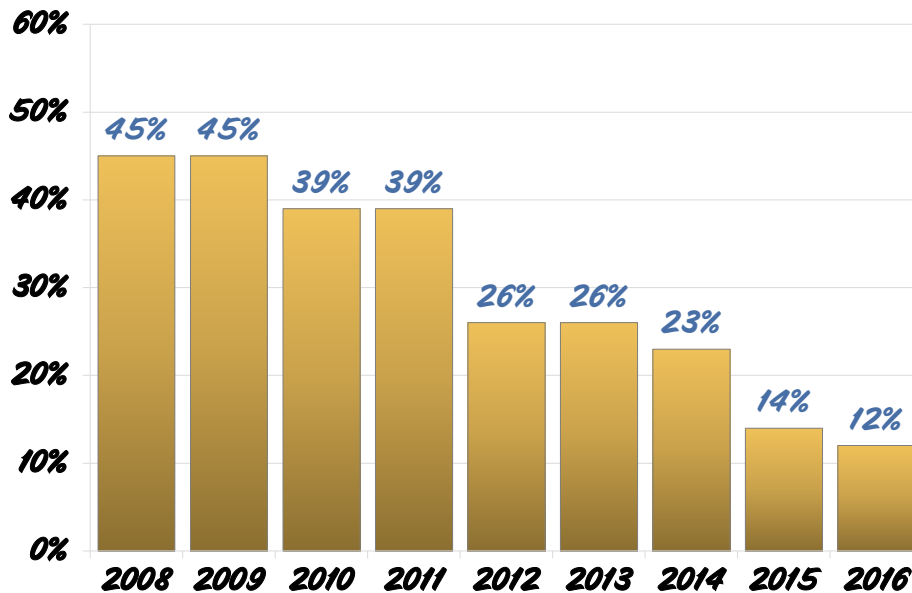
For the year ended September 30, 2016, Palau had \$178 million of long-term debt or \$8,524 per capita, which is a relatively high debt burden on its citizens when compared to other insular governments. The large increase in 2015 represented a significant increase in the ratio from 2014 due to the inclusion of approximately \$137 million of net pension liabilities as long-term obligations for the first time.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
\$1,159	\$1,107	\$997	\$866	\$906	\$1,187	\$1,110	\$1,317	\$7,446	\$8,524

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.

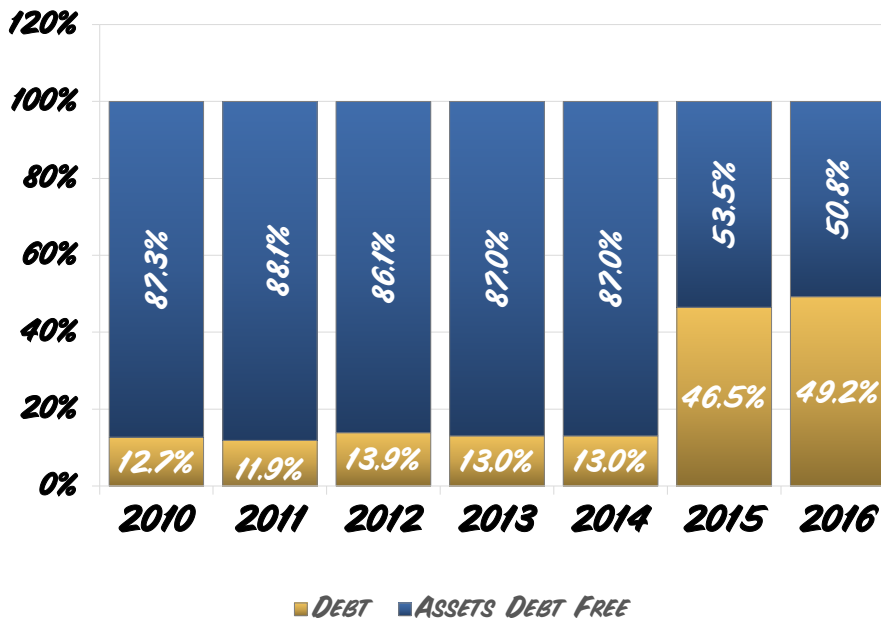
At September 30, 2016, Palau's pension plan trust fund net position was 12% of the accrued total pension liability, indicating the plan was below a one-fifth funding level for back to back years. This is an unhealthy position for civil service pension fund to be in, and represents the lowest funded percentage in any period measured.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
50%	45%	45%	39%	39%	26%	26%	23%	14%	12%

DEBT TO ASSETS

WHO REALLY OWNS PALAU?

PERCENTAGE OF DEBT TO 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.

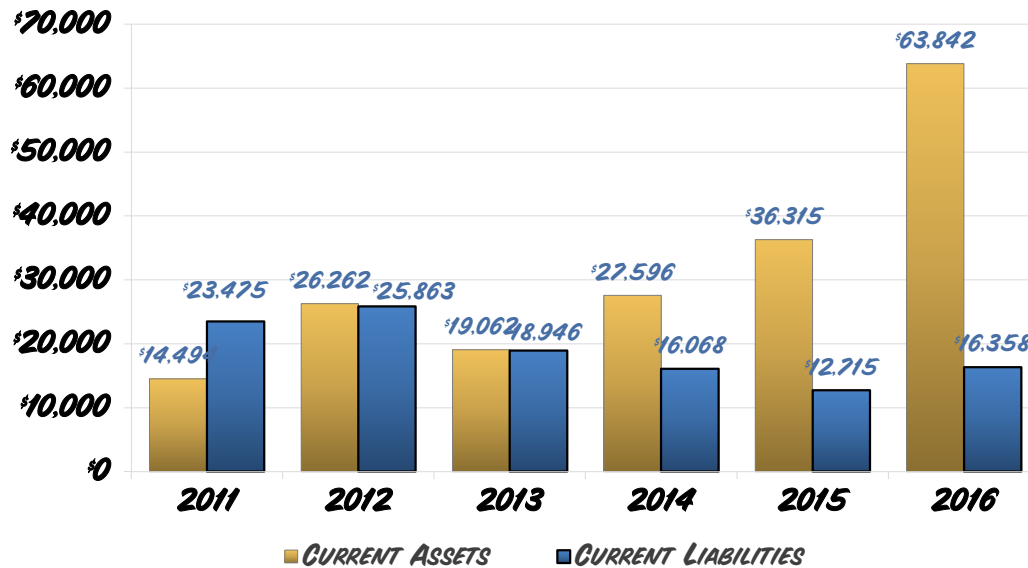
At September 30, 2016, approximately 49.2% of Palau's \$412 million of total assets were funded with debt or other obligations, resulting in equity position of 50.8%. This is a decline from the ratio of the prior year and indicates that for each dollar of assets it owns, Palau owes 49.2 cents of that dollar to others. The 2015 decline was primarily due to the implementation of the GASB 68 Pension Standard, which reported a net pension liability of approximately \$137 million for the first time.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
9.5%	10.1%	10.4%	12.7%	11.9%	13.9%	13.0%	13.1%	46.5%	49.2%

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.

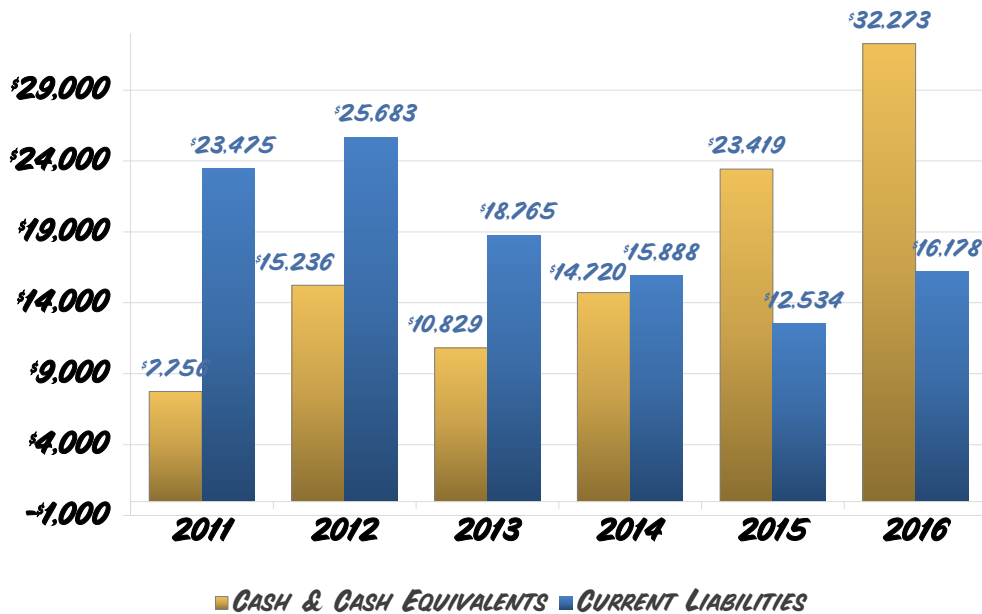
At September 30, 2016, Palau had a General Fund ratio of current assets to current liabilities of 3.90 to 1. This indicates that for every dollar of current liabilities, Palau had \$3.90 to fund them. This is considered a favorable ratio, and it is a significant improvement when compared to the ratios of the past few periods.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2017
0.88	0.73	0.60	0.61	0.62	1.02	1.01	1.72	2.86	3.90

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.

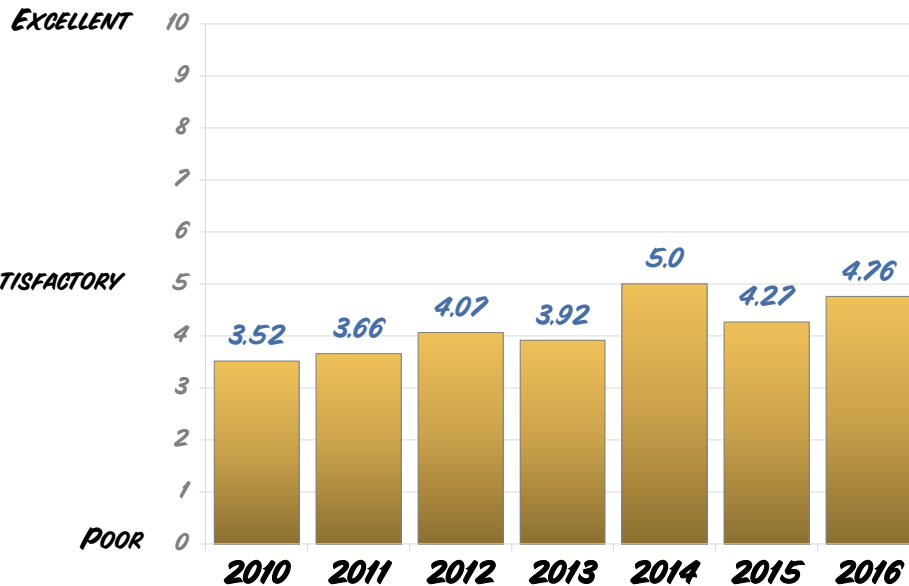
At September 30, 2016, Palau had a General Fund ratio of cash and cash equivalents to current liabilities of 1.99 to 1. This indicates that for every dollar of current liabilities, Palau had 1.99 dollars in cash and cash equivalents to fund them. This is considered a favorable ratio, and an improvement from the ratio of the prior period.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
0.48	0.42	0.35	0.39	0.33	0.59	0.58	0.93	1.87	1.99

PERFORMETER® READING

HOW WAS OUR OVERALL FINANCIAL PERFORMANCE?

OVERALL READING



The 2016 reading of 4.76 indicates the evaluator’s opinion that the Palau Government’s overall financial health and performance increased during the fiscal year ended September 30, 2016, to a level just below a satisfactory reading.

Palau has maintained a relatively consistent level of scoring over the past nine years. However, the 2015 implementation of GASB Statement 68 related to the recognition of net pension liabilities turned downward what would have been a positive upward trend. The severe unfunded status of the Palau Government Civil Service Pension Plan may well hamper cash flows and the financial health of the government in future years.

FY 16 OVERALL PERFORMETER® READING: 4.76

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.



	2009	2010	2011	2012	2013	2014	2015	2016
Number of F.S. Opinion Qualifications/Exceptions	0	0	0	0	0	0	0	0
Number of Major Federal Program Qualifications/Exceptions	8	8	7	7	7	6	9	5
Number of F.S. Findings								
A. Internal Control and Compliance	0	0	0	0	0	0	0	0
B. Internal Control Only	8	7	5	3	3	3	1	1
C. Compliance Only	4	3	0	8	0	1	0	1
TOTAL	12	10	5	11	3	4	1	2
Percentage of Findings Repeated	25%	80%	80%	80%	0%	50%	0%	0%
Number of A-133 Findings								
A. Internal Control and Compliance	33	25	5	18	19	9	17	11
B. Internal Control Only	0	2	1	0	0	0	0	0
C. Compliance Only	0	1	1	0	0	1	0	0
TOTAL	33	28	7	18	19	10	17	11
Percentage of A-133 Findings Repeated	48%	60.1%	57%	57%	47%	80%	29%	73%
Number of months after Y/E the F.S. were Released	14	22	17	13.5	10	9	9.5	9.5
Number of Qualifications/Exceptions Related to C.U.	0	0	0	0	0	0	0	0
\$ of Questioned Costs-Current Year	\$967,990	\$1,668,099	\$336,302	\$763,348	\$183,006	\$72,875	\$354,018	\$97,206
\$ of Questioned Costs- Cumulative	\$2,352,870	\$3,214,066	\$3,550,368	\$2,754,298	\$2,690,163	\$826,527	\$753,136	\$319,767
\$ of Questioned Costs Resolved – Current Year	\$0	\$557,949	\$557,949	\$1,559,418	\$247,141	\$1,936,511	\$427,409	\$204,848

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.