



THE PERFORMETER[®]
and the A.F.T.E.R. Analysis

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, 2009



Crawford & Associates, P.C.
Oklahoma City, Oklahoma



What Is The Performer[®]?

- 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 Performer[®]

- 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



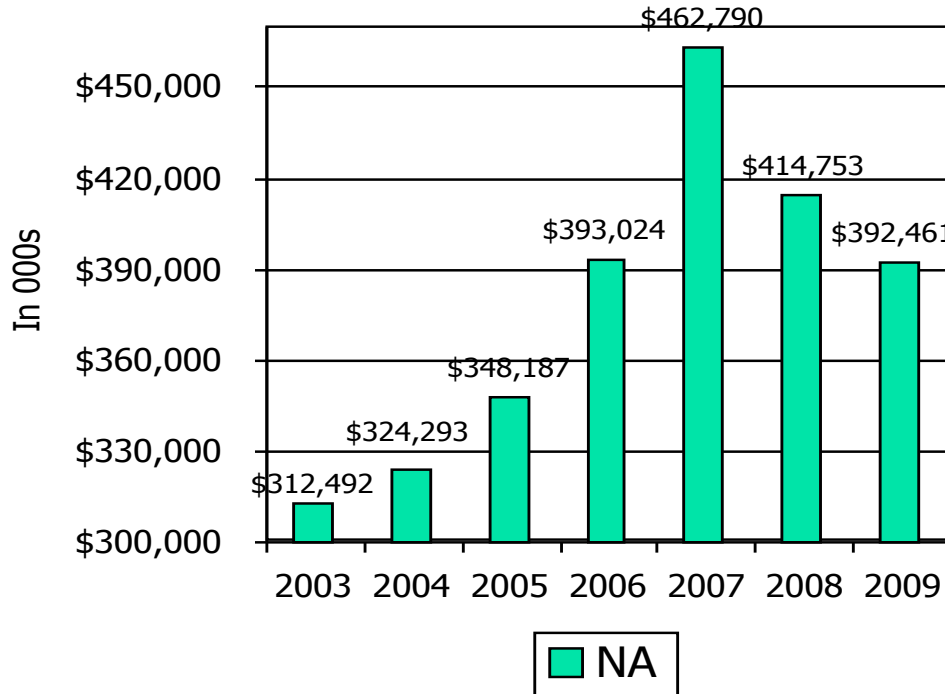
Limitations of the Performer[®]

- 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 Assets

Did our overall financial condition improve, decline or remain steady over the past year?

Net Assets at Year End



Net assets include 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, and total liabilities, including long-term debt.

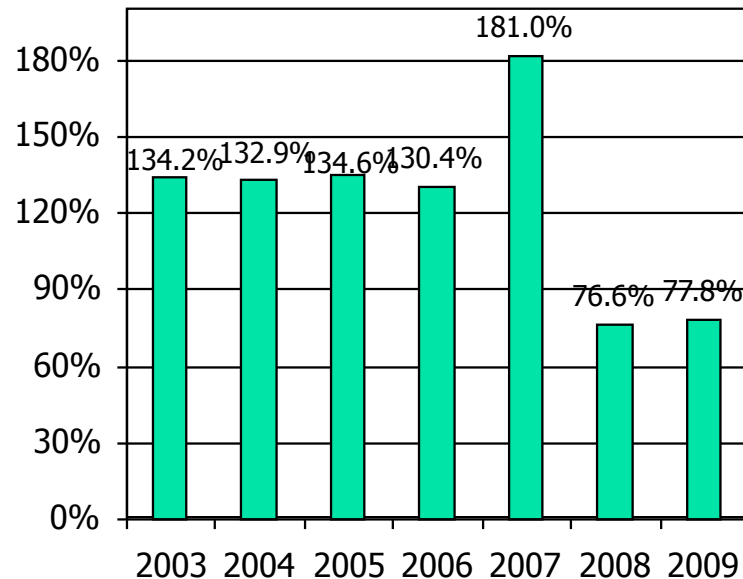
For the year ended September 30, 2009, total net assets decreased by \$22.3 million or 5.4% from the prior year. This is indicative of incurring expenses for the current year in excess of earned revenues for the current year.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
12.4%	3.8%	7.4%	7.1%	17.6%	-10.4%	-5.4%			

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.

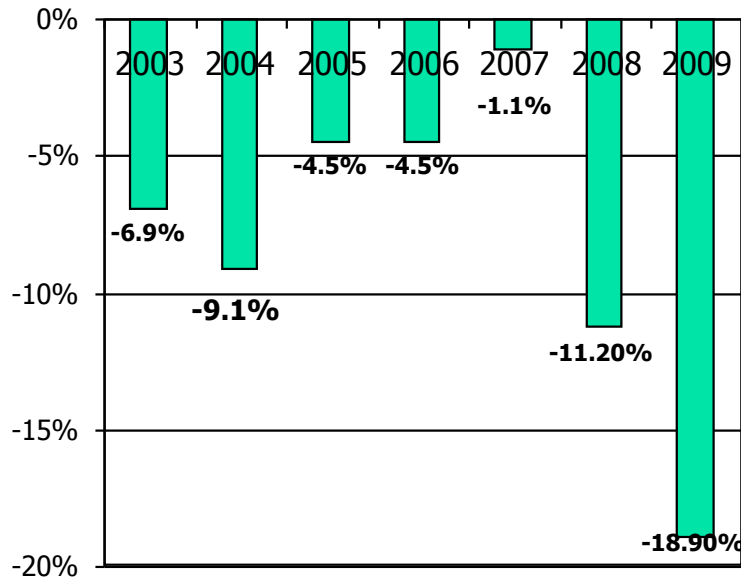
For the year ended September 30, 2009, Palau funded 77.8% of their expenses with current year revenues, the second consecutive period in which this has occurred. This indicates that Palau's current year costs were only partially funded with current year revenues, the rest being funded with carryover revenues from prior years.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
134.2%	132.9%	136.3%	130.4%	181%	76.6%	77.8%			

Level of Unrestricted Net Assets

How do our total rainy day funds look?

Unrestricted Net Assets (Deficit) as a % of Annual Revenues



The level of total unrestricted net assets 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.

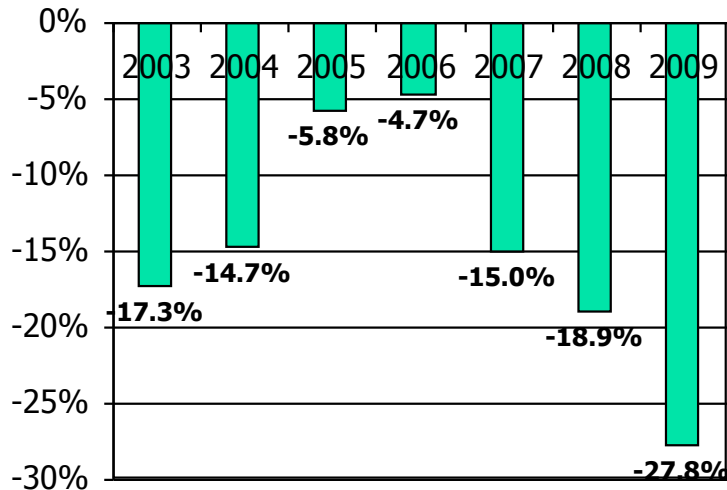
For the year ended September 30, 2009, Palau's total unrestricted net assets deficit approximated \$14.8 million or 18.9% of annual total revenues, which continues to increase the unrestricted net asset deficit for a second consecutive year.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
-6.9%	-9.1%	-4.5%	-4.5%	-1.1%	-11.2%	-18.9%			

Level of Budgetary Fund Balance

How does our budgetary carryover look?

Budgetary Unreserved Fund Balance
(Deficit) as a Percentage of Annual
Revenues



The level of budgetary unreserved 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.

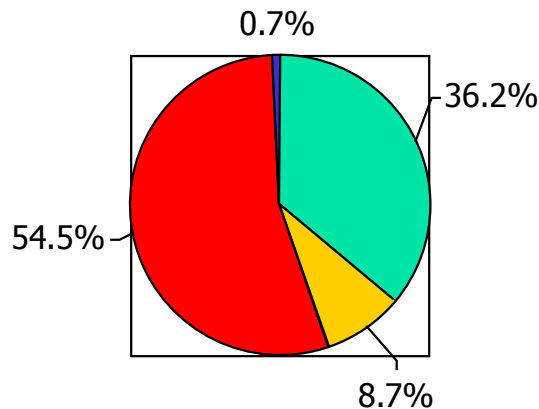
For the year ended September 30, 2009, Palau's unreserved fund balance deficit of the General Fund was 27.8%. This is a relatively unhealthy position for the General Fund to be in, and a continues a decline in the ratio calculated in the last three prior periods.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
-17.3%	-14.7%	-5.8%	-4.7%	-15%	-18.9%	-27.8%			

Revenue Dispersion

How heavily are we relying on revenue sources we can't directly control?

2009 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.

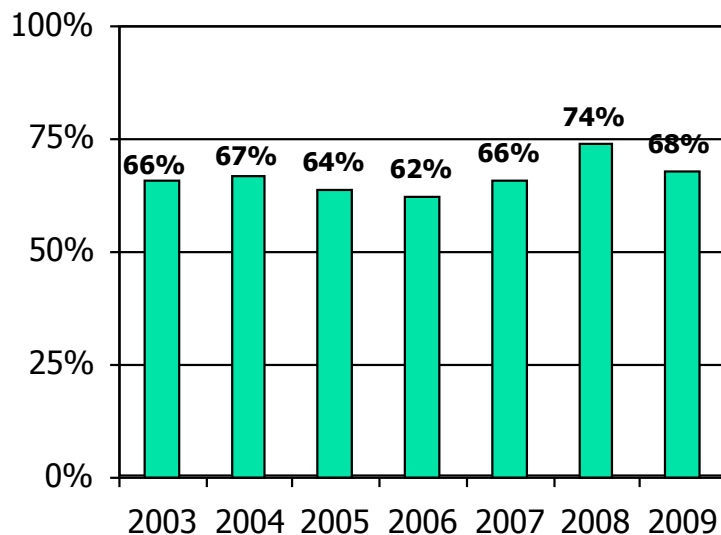
For the year ended September 30, 2009, Palau had direct control over 44.9% of its revenues. This ratio indicates Palau has some exposure, as do most governments, to financial difficulties due to reliance on non-controlled revenue (55.1%). This ratio is relatively consistent with that of the prior period.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
23.2%	34.1%	38.7%	35.9%	23.6%	48.4%	44.9%			

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.

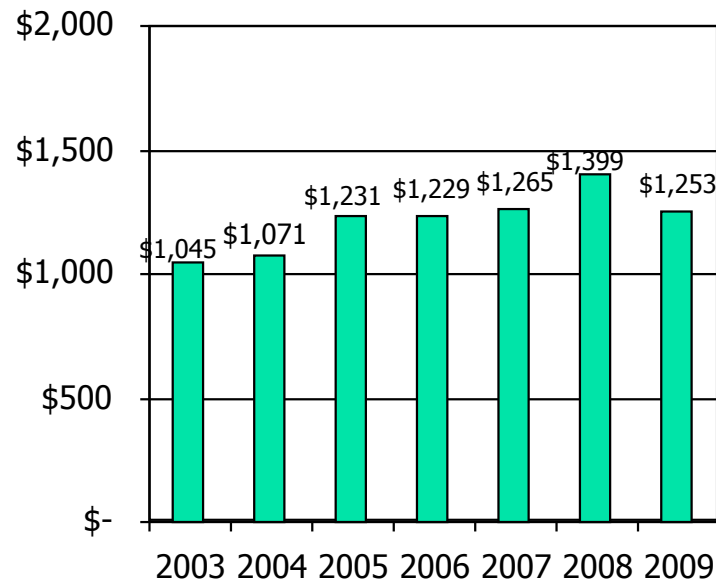
At September 30, 2009, Palau's depreciable capital assets amounted to \$389.9 million while accumulated depreciation totaled \$125.9 million. This indicates that, on the average, Palau's capital assets have 68% of their useful lives remaining. This is an above satisfactory financial indicator, but it is a decline from the ratio in the prior period.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
66%	67%	64%	62%	66%	74%	68%			

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, including gross receipts tax, income taxes, and other taxes.

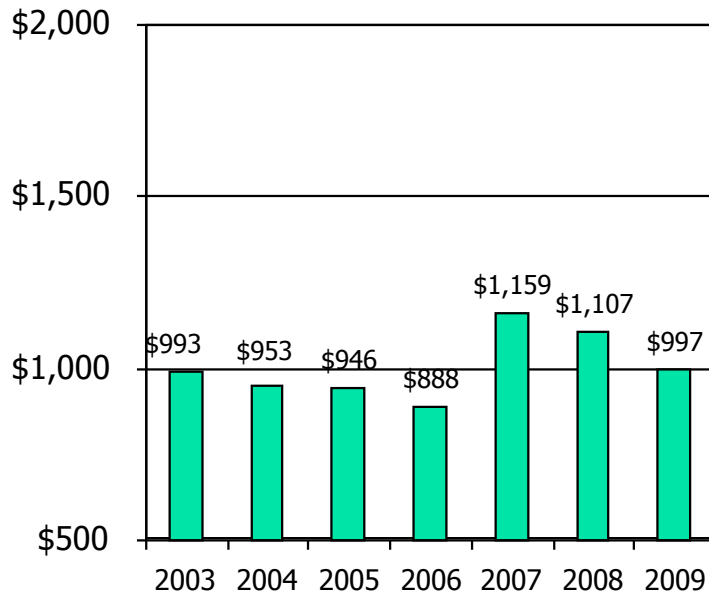
For the year ended September 30, 2009, total taxes amounted to \$24.7 million or \$1,253 per capita. This indicates a relatively moderate tax burden on the citizens when compared with other insular governments, and is relatively consistent with the ratio calculated in prior periods.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
\$1,045	\$1,071	\$1,231	\$1,229	\$1,265	\$1,399	\$1,253			

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.

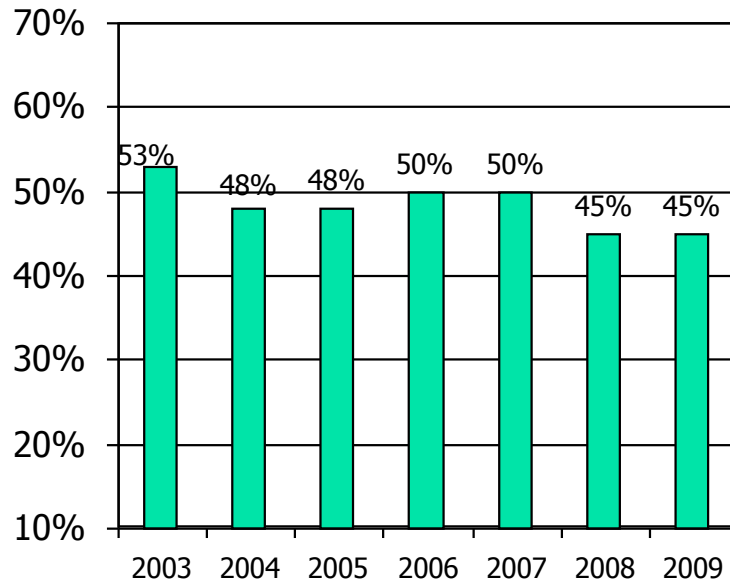
For the year ended September 30, 2009, Palau had \$19.7 million of long-term debt or \$997 per capita, which is a relatively low debt burden on its citizens when compared to other insular governments, and a slight improvement in the ratio of the prior period.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
\$993	\$953	\$946	\$888	\$1,159	\$1,107	\$997			

Pension Plan Funding Ratio

Will we be able to pay our employees when they retire?

**Plan Assets as a Percentage of
Accrued Liability**



The pension funding ratio compares the actuarial fair value of the pension plan's assets to the actuarial accrued liability for pension benefits. A percentage less than 100% indicates the plan is underfunded at the valuation date.

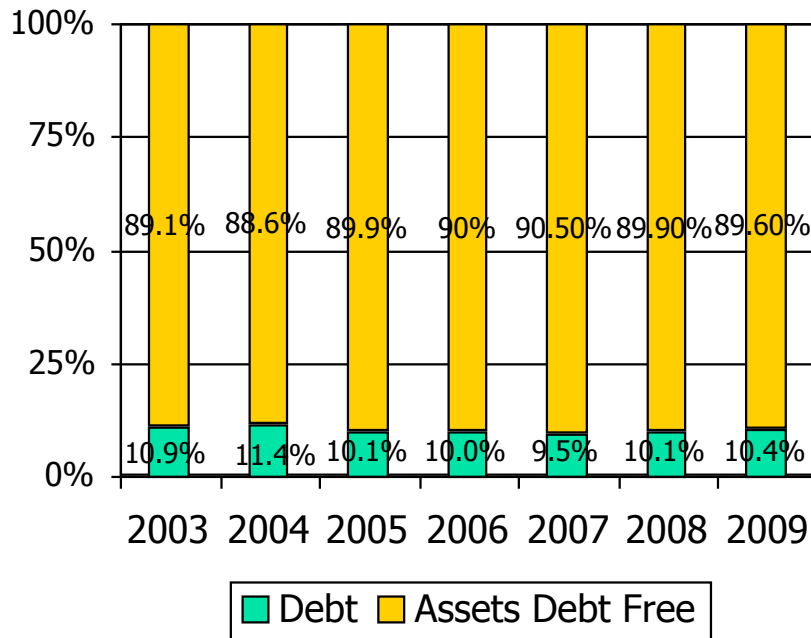
At September 30, 2009, Palau's pension plan assets were 45% of the accrued pension benefit liability, indicating the plan was less than half funded at the last valuation date (2007).

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
53%	48%	48%	50%	50%	45%	45%			

Debt to Assets

How much equity do we have in our assets?

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.

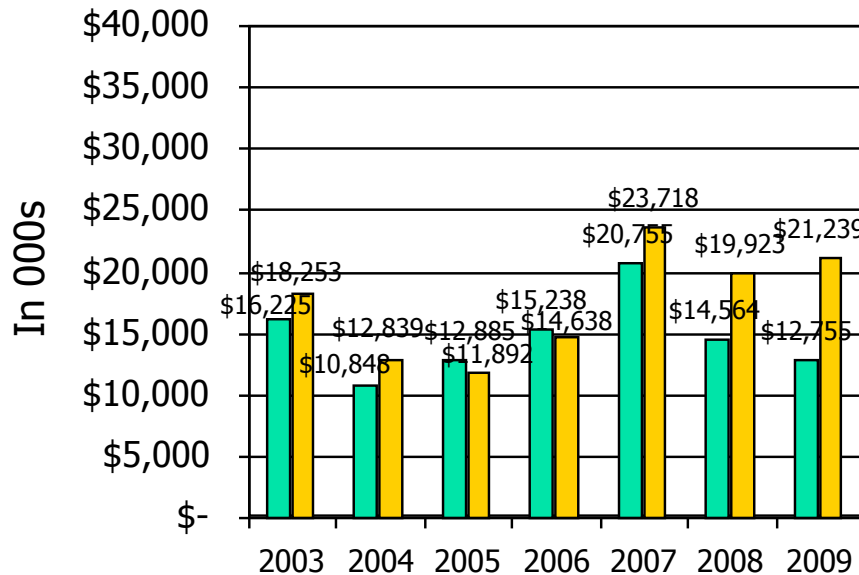
At September 30, 2009, only 10.4% of Palau's \$437.9 million of total assets were funded with debt or other obligations. This is a near excellent financial indicator and indicates that for each dollar of assets it owns, Palau owes 10.4 cents of that dollar to others. This ratio is relatively consistent with those of prior years.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
10.9%	11.4%	10.1%	10%	9.5%	10.1%	10.4%			

Current Ratio

Will our vendors and employees be pleased with our ability to pay them on time?

Current Assets Compared to Current Liabilities



■ Current Assets ■ Current Liabilities

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
.89	.84	1.08	1.04	.88	.73	.60			

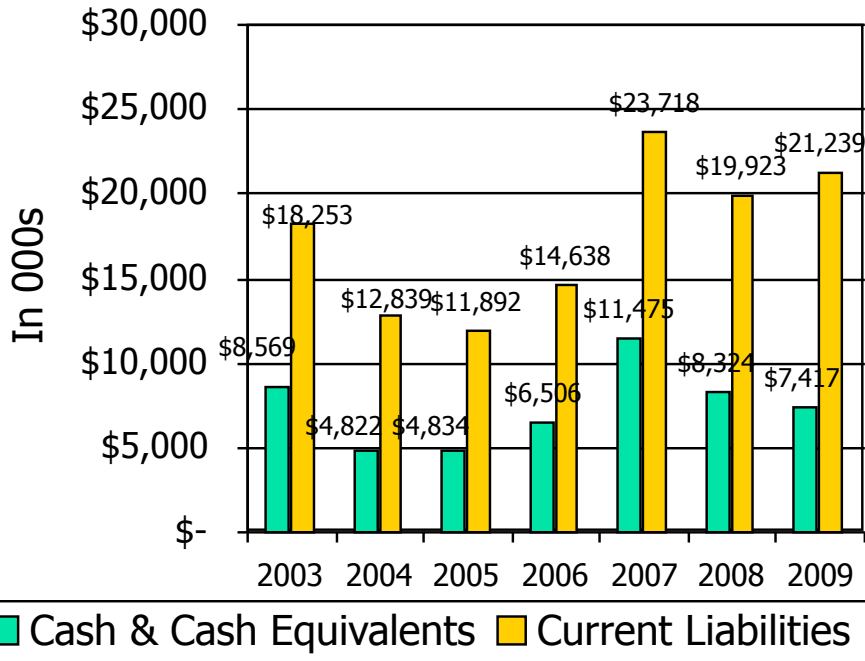
The current ratio is one measure of Palau's ability to pay its short-term obligations. The current ratio compares total current assets and liabilities. A current ratio of 2.00 to 1 indicates good current liquidity and an ability to meet the short-term obligations. This ratio includes only Palau's General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

At September 30, 2009, Palau had a General Fund ratio of current assets to current liabilities of .60 to 1. This indicates that for every dollar of current liabilities, Palau had 60 cents to fund them. This is considered an unfavorable ratio, and continues a decline in the ratios calculated in prior years.

Quick Ratio

How is our short-term cash position?

Cash and Cash Equivalents
Compared to Current Liabilities



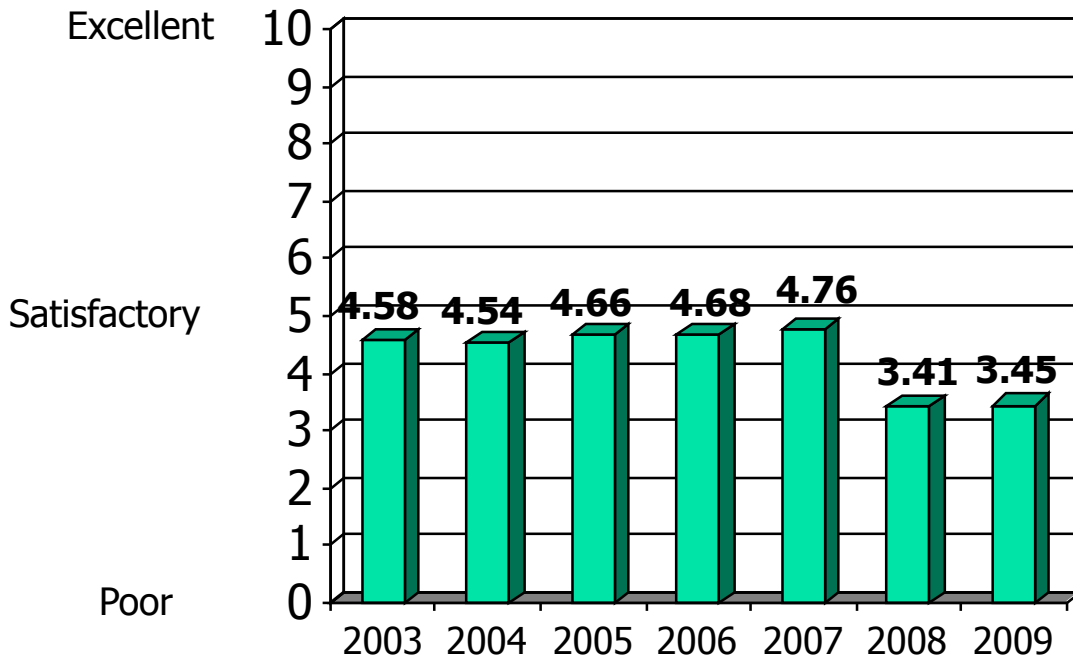
The quick ratio is another, more conservative, measure of Palau's ability to pay its short-term obligations. The quick ratio compares total cash and short-term investments to current liabilities. A quick ratio of 1.00 to 1 indicates adequate current liquidity and an ability to meet the short-term obligations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

At September 30, 2009, Palau had a General Fund ratio of cash and cash equivalents to current liabilities of .35 to 1. This indicates that for every dollar of current liabilities, Palau had 35 cents in cash and cash equivalents to fund them. This is considered an unfavorable ratio, and it is a decline in the ratio calculated in the prior period.

2003	2004	2005	2006	2007	2008	2009	2010	2010	2012
0.47	0.38	0.41	.44	.48	.42	.35			

Performmeter® Reading

Overall Reading



The 2009 reading of 3.45 indicates the evaluator's opinion that the Palau Government's overall financial health and performance improved slightly during the fiscal year ended September 30, 2009.

After a number of years of near satisfactory scores, the the past two periods have shown a decline in the financial health as success of the Palauan Government. Much of the decline occurred in FY 2008 due to the dramatic drop in the fair value of investments. Palau did not see much recovery though during FY 2009, and it's reading has remained stationary.



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.

A.F.T.E.R.

	2003	2004	2005	2006	2007	2008	2009
Number of F.S. Opinion Qualifications/Exceptions	0	0	0	0	0	0	0
Number of Major Federal Program Qualifications/Exceptions	5	5	9	4	5	6	8
Number of F.S. Findings							
A. Internal Control and Compliance	6	7	6	5	0	0	0
B. Internal Control Only	0	2	6	8	11	3	8
C. Compliance Only	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>3</u>	<u>4</u>
TOTAL	6	9	12	13	14	6	<u>12</u>
Percentage of Findings Repeated	16.7%	11.1%	50%	30.8%	71%	33%	25%
Number of A-133 Findings							
A. Internal Control and Compliance	6	13	31	15	7	16	33
B. Internal Control Only	0	0	0	0	5	1	0
C. Compliance Only	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	6	13	31	15	12	17	33
Percentage of A-133 Findings Repeated	16.7%	7.7%	32.3%	13.3%	67%	59%	48%
Number of months after Y/E the F.S. were Released	21	14	9	9	9	9	14
Number of Qualifications/Exceptions Related to C.U.	0	0	0	0	0	0	0
\$ of Questioned Costs-Current Year	\$284,274	\$320,543	\$331,204	\$99,755	\$63,691	\$577,977	\$967,990
\$ of Questioned Costs- Cumulative	\$592,481	\$827,807	\$1,184,207	\$993,651	\$801,692	\$801,692	\$2,352,870
\$ of Questioned Costs Resolved – Current Year	\$0	\$85,217	\$5,374	\$290,311	\$255,650	\$1,379,669	\$0



Thank You

We would like to commend and thank the Government of Palau's management, the U.S. Department of Interior, and the Graduate School for allowing us to present this financial analysis. We hope it serves as a useful and understandable compliment to Palau's annual financial report.

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