



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, 2015



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

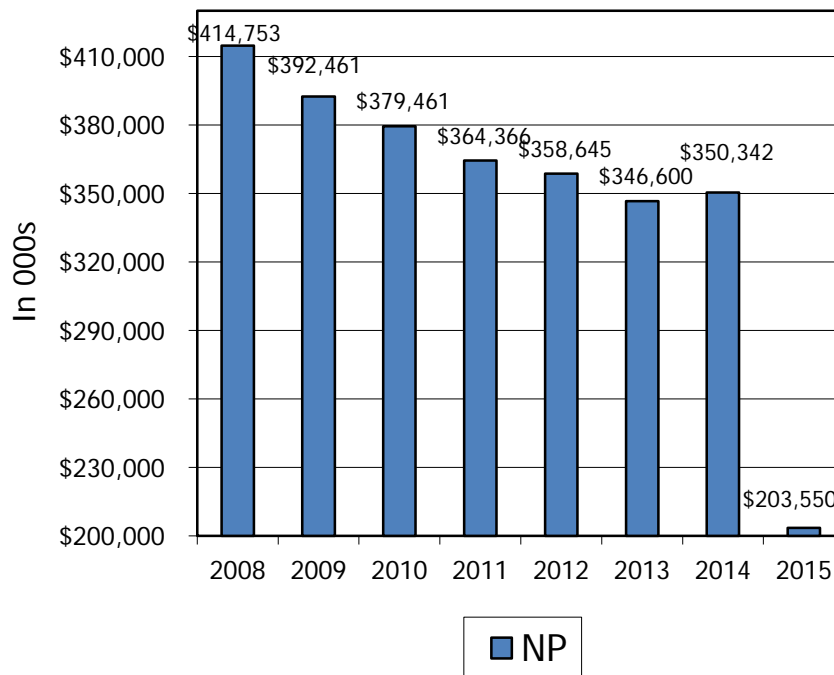
Limitations of the Performer[®]

- 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 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.

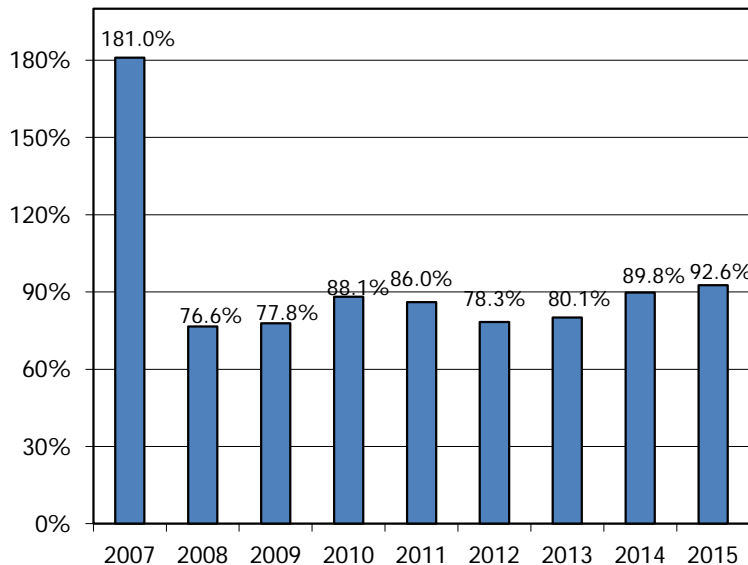
For the year ended September 30, 2015, total net position resulting from current year operations decreased by \$18.8 million or 8.5% from the prior year. The decrease was indicative of overall expenses for 2015 exceeding the revenues generated for the year. The large decline of net position shown in 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.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
7.4%	7.1%	17.6%	-10.4%	-5.4%	-3.3%	-4.0%	1.7%	-3.4%	1.1%	-8.5%

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.

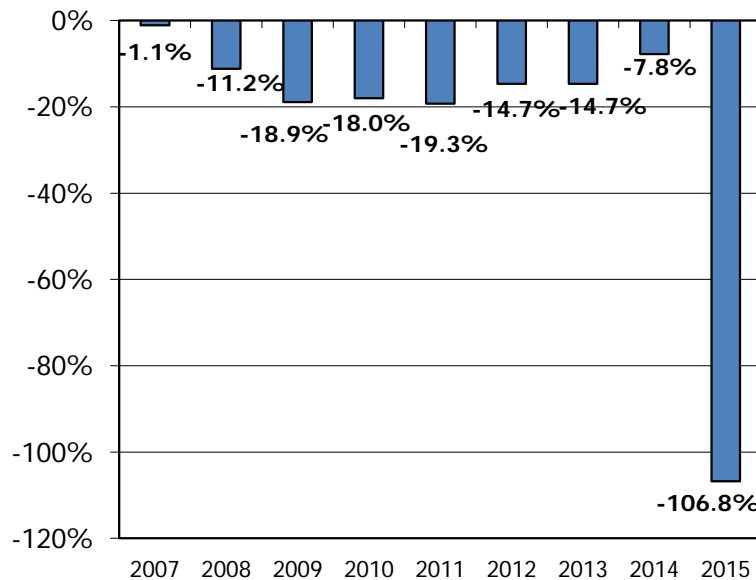
For the year ended September 30, 2015, Palau funded 92.6% of their expenses with current year revenues, the eighth consecutive period in which the ratios have been considered lower than preceding periods. This indicates that Palau's current year costs were only partially funded with current year revenues, with the rest being funded with carryover revenues from prior years, or by alternatively creating a larger operational deficit.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
136.3%	130.4%	181%	76.6%	77.8%	88.1%	86.0%	78.3%	80.1%	89.8%	92.6%

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.

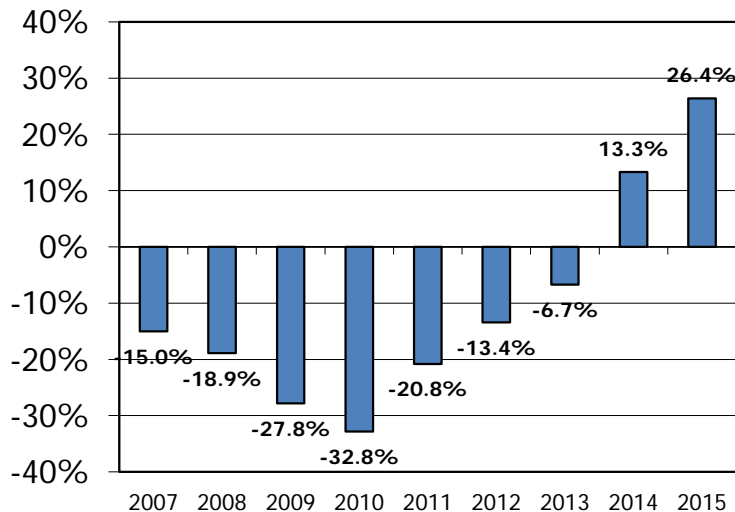
For the year ended September 30, 2015, Palau's total unrestricted net position was actually in a deficit position that approximated \$127.1 million, or 106.8% of annual total revenues. This is a significant decline in the ratio when compared to the prior period, but is primarily due to the implementation of the GASB 68 pension statement, which reports a net pension liability in the amount of \$130 million for the first time.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
-4.5%	-4.5%	-1.1%	-11.2%	-18.9%	-18.0%	-19.3%	-14.7%	-14.7%	-7.8%	-106.8%

Level of Budgetary Fund Balance

How does our budgetary carryover look?

Budgetary 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.

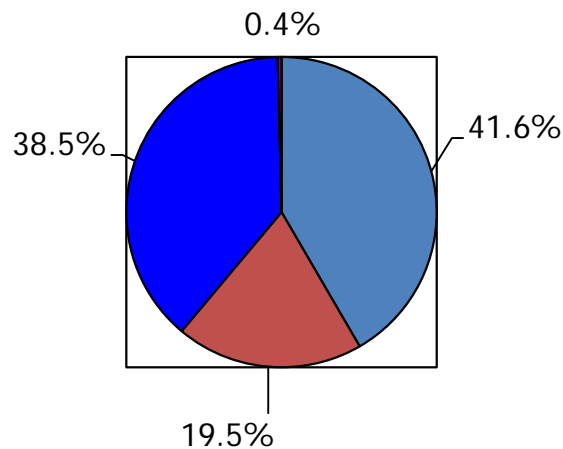
For the year ended September 30, 2015, Palau's unassigned fund balance of the General Fund was 26.4% of annual revenues. This is a very healthy position for the General Fund to be in, and an improvement from the prior period, due primarily to a \$5 million transfer of budgetary support from the Compact Section 211(f) Trust Fund.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
-5.8%	-4.7%	-15%	-18.9%	-27.8%	-32.8%	-20.8%	-13.4%	-6.7%	13.3%	26.4%

Revenue Dispersion

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

2015 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.

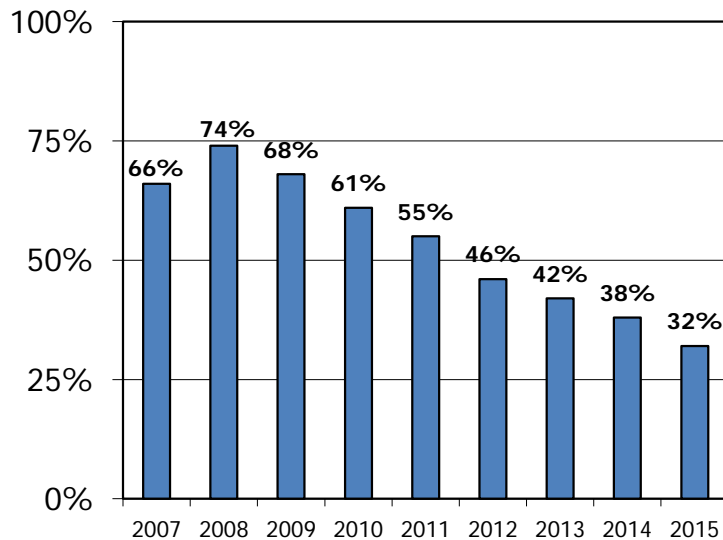
For the year ended September 30, 2015, Palau had direct control over 61% of its revenues. This ratio indicates Palau has some exposure, as do most governments, to financial difficulties due to reliance on non-controlled revenue (39%). However, this ratio is a slight improvement when compared to ratios of prior periods.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
38.7%	35.9%	23.6%	48.4%	44.9%	39.0%	50.2%	51.6%	54.5%	55.8%	61%

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.

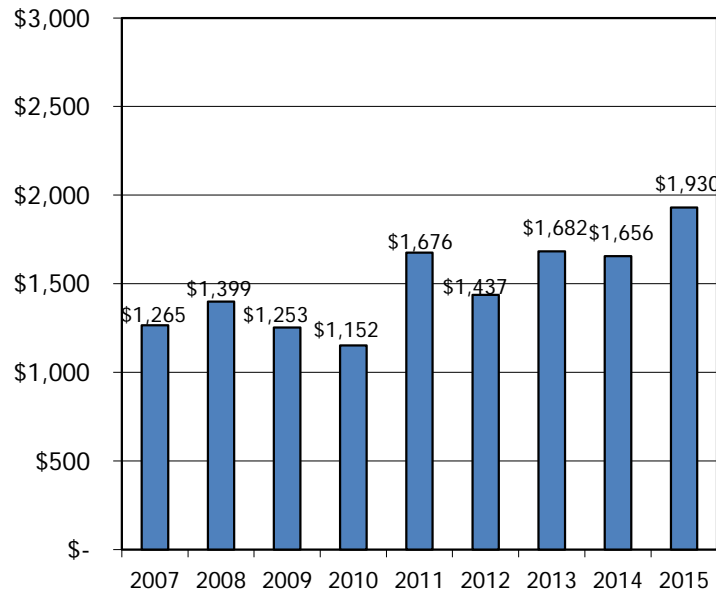
At September 30, 2015, Palau's depreciable capital assets amounted to \$404 million while accumulated depreciation totaled \$275 million. This indicates that, on the average, Palau's capital assets have 32% of their useful lives remaining. This continues a trend of a seven-year decline in the ratio and now remains below a satisfactory level.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
64%	62%	66%	74%	68%	61%	55%	46%	42%	38%	32%

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.

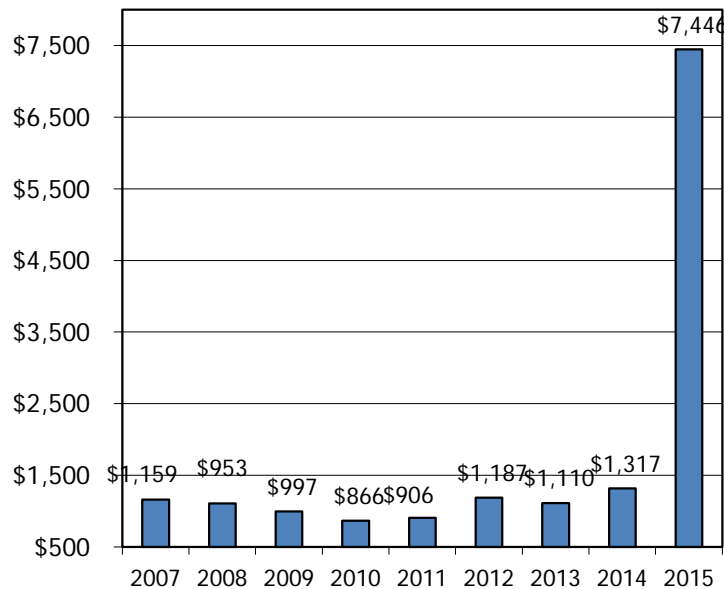
For the year ended September 30, 2015, total taxes amounted to \$40 million or \$1,930 per capita. This indicates a relatively moderate tax burden on the citizens when compared with other insular governments, and represents an increase when compared to the ratio from the prior period.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
\$1,231	\$1,229	\$1,265	\$1,399	\$1,253	\$1,152	\$1,676	\$1,437	\$1,682	\$1,656	\$1,930

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.

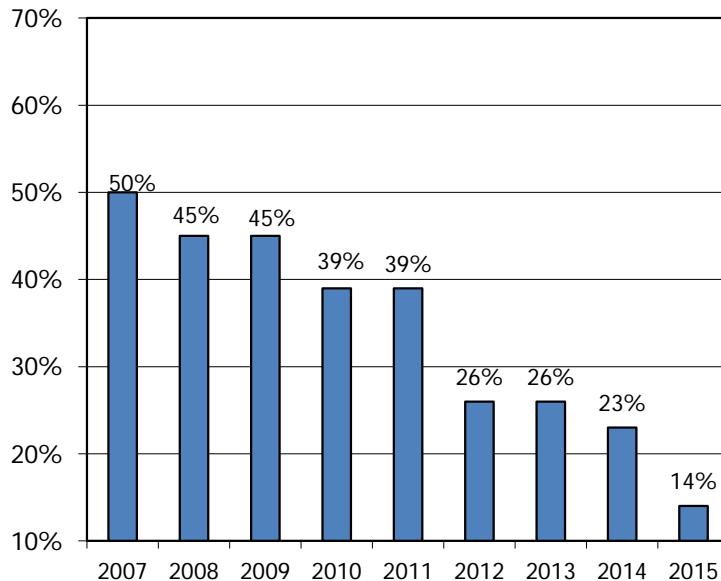
For the year ended September 30, 2015, Palau had \$155 million of long-term debt or \$7,446 per capita, which is a relatively high debt burden on its citizens when compared to other insular governments, and represents a significant increase in the ratio from the prior period due to the inclusion of approximately \$130 million of net pension liabilities as long-term obligations.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
\$946	\$888	\$1,159	\$1,107	\$997	\$866	\$906	\$1,187	\$1,110	\$1,317	\$7,446

Pension Plan Funding Ratio

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

Pension Plan Trust Fund Net Position as a Percentage of Total Position 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.

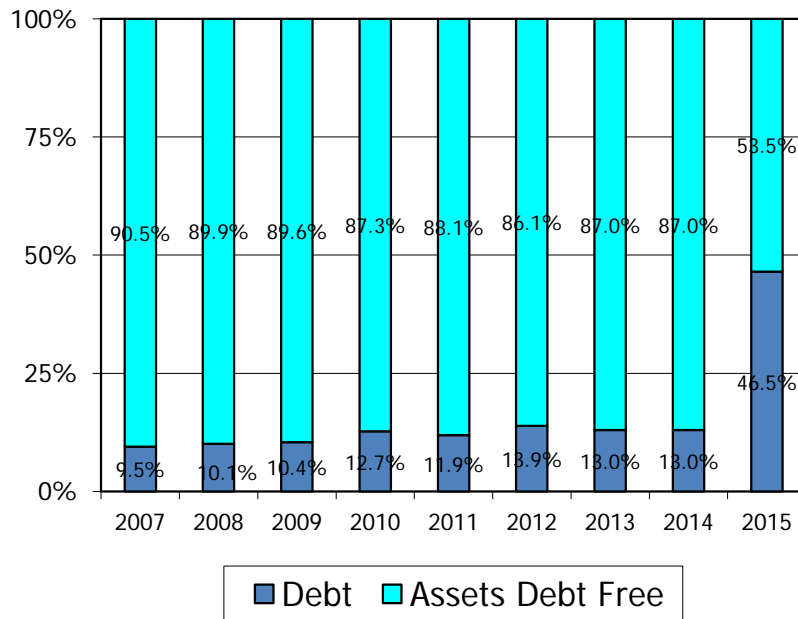
At September 30, 2015, Palau's pension plan trust fund net position was 14% of the accrued total pension liability, indicating the plan was a below a 20% funding level for the first time. This is an unhealthy position for civil service pension fund to be in, and represents the lowest funded percentage in any period measured.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
48%	50%	50%	45%	45%	39%	39%	26%	26%	23%	14%

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.

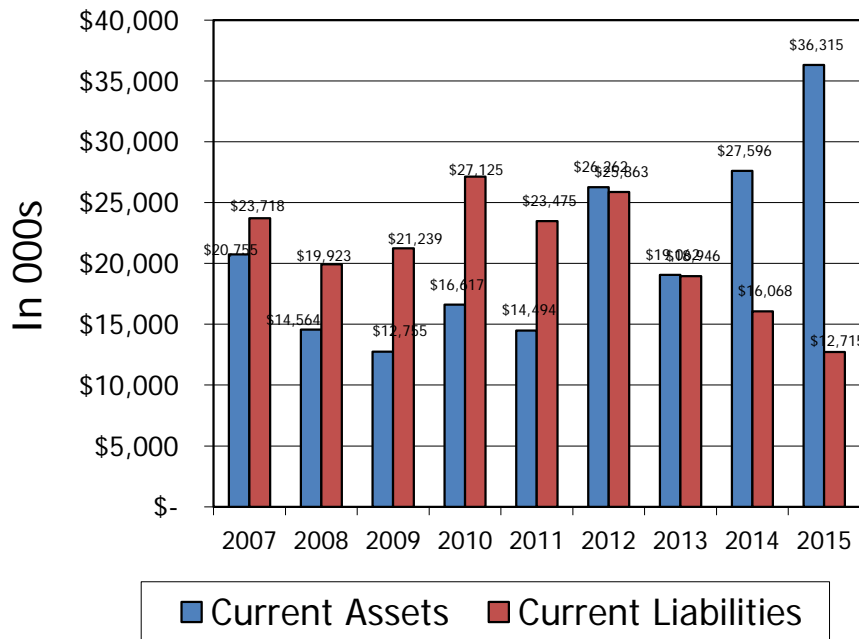
At September 30, 2015, approximately 46.5% of Palau's \$383 million of total assets were funded with debt or other obligations, resulting in equity position of 53.5%. This is a significant decline from the ratio of the prior year and indicates that for each dollar of assets it owns, Palau owes 46.5 cents of that dollar to others. The decline was primarily due to the implementation of the GASB 68 Pension Standard, which reported a net pension liability of approximately \$130 million for the first time.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
10.1%	10%	9.5%	10.1%	10.4%	12.7%	11.9%	13.9%	13%	13.1%	46.5%

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.

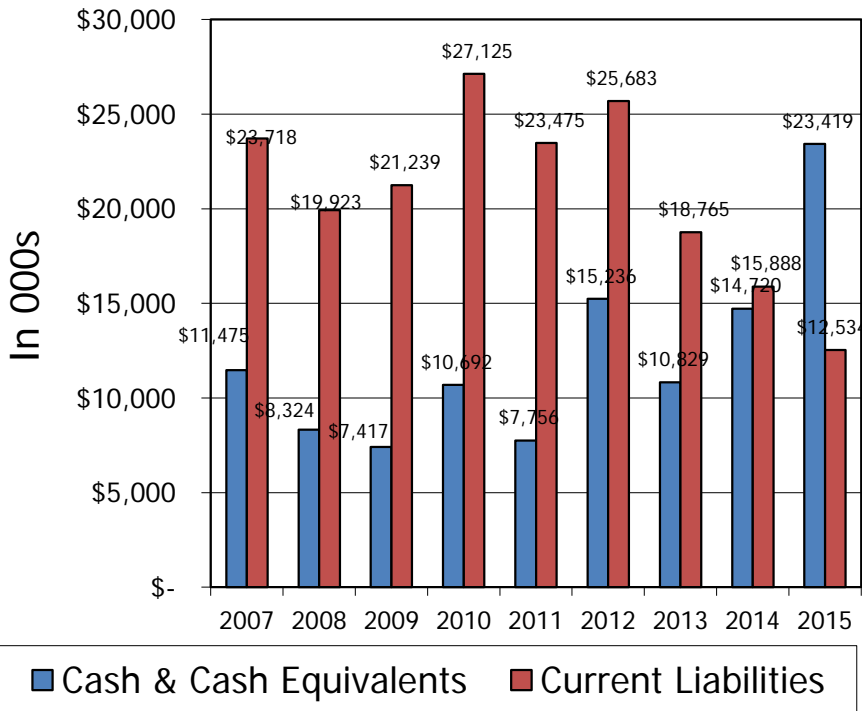
At September 30, 2015, Palau had a General Fund ratio of current assets to current liabilities of 2.86 to 1. This indicates that for every dollar of current liabilities, Palau had \$2.86 to fund them. This is considered a favorable ratio, and it is a significant improvement when compared to the ratios of the past few periods.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1.08	1.04	.88	.73	.60	.61	.62	1.02	1.01	1.72	2.86

Quick Ratio

How is our short-term cash position?

Cash and Cash Equivalents Compared to Current Liabilities



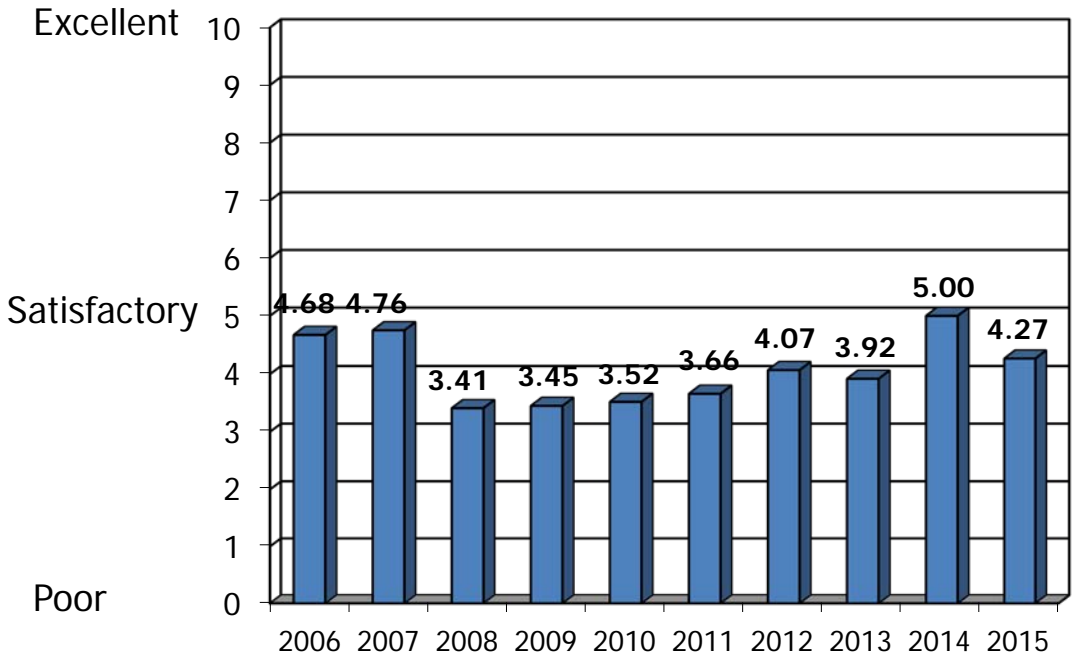
The quick ratio is another, more conservative, measure of Palau's ability to pay its short-term obligations. The quick ratio compares total cash and short-term investments to current liabilities. A quick ratio of 1.00 to 1 indicates adequate current liquidity and an ability to meet the short-term obligations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

At September 30, 2015, Palau had a General Fund ratio of cash and cash equivalents to current liabilities of 1.87 to 1. This indicates that for every dollar of current liabilities, Palau had 1.87 Dollars in cash and cash equivalents to fund them. This is considered a favorable ratio, and a significant improvement from the ratio of the prior period.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
0.41	.44	.48	.42	.35	.39	.33	.59	.58	.93	1.87

Performmeter® Reading

Overall Reading



The 2015 reading of 4.27 indicates the evaluator's opinion that the Palau Government's overall financial health and performance decreased during the fiscal year ended September 30, 2015, to a level just below a satisfactory reading.

Palau has maintained a relatively consistent level of scoring over the past eight years. However, the implementation of GASB Statement 68 related to the recognition of net pension liabilities has 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.

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.

	2008	2009	2010	2011	2012	2013	2014	2015
Number of F.S. Opinion Qualifications/Exceptions	0	0	0	0	0	0	0	0
Number of Major Federal Program Qualifications/Exceptions	6	8	8	7	7	7	6	9
Number of F.S. Findings								
A. Internal Control and Compliance	0	0	0	0	0	0	0	0
B. Internal Control Only	3	8	7	5	3	3	3	1
C. Compliance Only	<u>3</u>	<u>4</u>	<u>3</u>	<u>0</u>	<u>8</u>	<u>0</u>	<u>1</u>	<u>0</u>
TOTAL	6	12	10	5	11	<u>3</u>	<u>4</u>	1
Percentage of Findings Repeated	33%	25%	80%	80%	80%	0%	50%	0%
Number of A-133 Findings								
A. Internal Control and Compliance	16	33	25	5	18	19	9	17
B. Internal Control Only	1	0	2	1	0	0	0	0
C. Compliance Only	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>
TOTAL	17	33	28	7	18	<u>19</u>	<u>10</u>	17
Percentage of A-133 Findings Repeated	59%	48%	60.1%	57%	57%	47%	80%	29%
Number of months after Y/E the F.S. were Released	9	14	22	17	13.5	10	9	9.5
Number of Qualifications/Exceptions Related to C.U.	0	0	0	0	0	0	0	0
\$ of Questioned Costs-Current Year	\$577,977	\$967,990	\$1,668,099	\$336,302	\$763,348	\$183,006	\$72,875	\$354,018
\$ of Questioned Costs- Cumulative	\$801,692	\$2,352,870	\$3,214,066	\$3,550,368	\$2,754,298	\$2,690,163	\$826,527	\$753,136
\$ of Questioned Costs Resolved – Current Year	\$1,379,669	\$0	\$557,949	\$557,949	\$1,559,418	\$247,141	\$1,936,511	\$427,409

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.

Visit our website at www.crawfordcpas.com for other useful tools for governments.