

A decorative graphic on the left side of the slide, consisting of a black crosshair with a blue square in the top-left quadrant, a red square in the bottom-left quadrant, and a yellow square in the bottom-right quadrant.

## THE PERFORMETER<sup>®</sup> 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 Government of Kosrae  
as of and for the Year Ended September 30, 2010



# What Is The Performer<sup>®</sup>?

---

- 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 Kosrae'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 Kosrae as a whole
- Use the comparisons to prior years to monitor trends in financial indicators



# Limitations of the Performer®

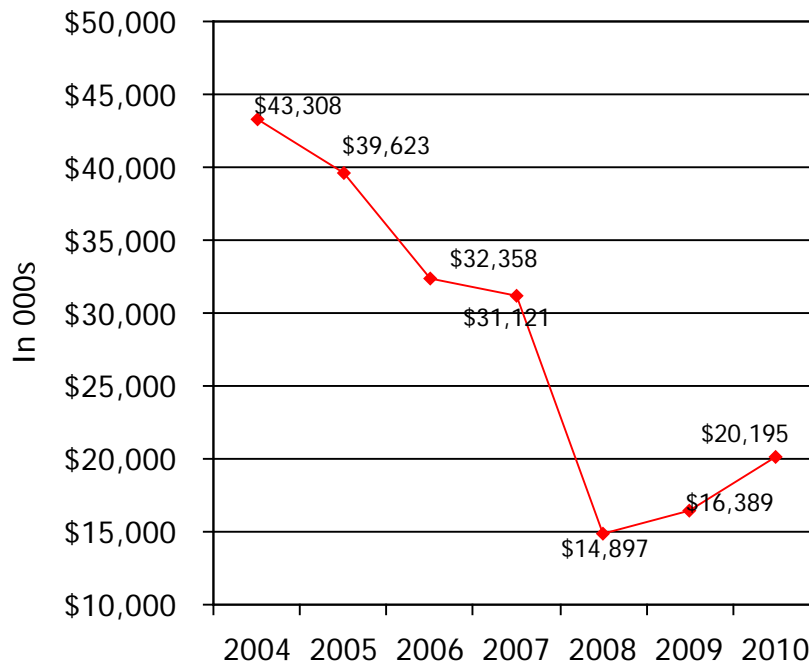
---

- The Performer® should not be used as the only source of financial information to evaluate Kosrae's performance and condition
- The analysis is an overall rating of Kosrae 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 Kosrae. It is measured as the difference between total assets, including capital assets, and total liabilities, including long-term debt.

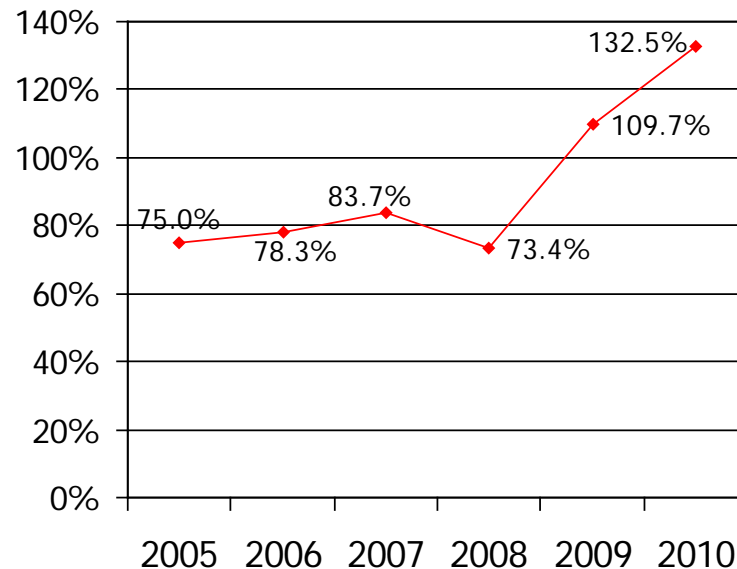
For the year ended September 30, 2010, total net assets increased by \$3.8 million or 23.2% from the prior year. This increase is primarily attributable to the value of donated capital assets.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1.5%	-6.0%	-8.5%	-18.3%	-3.8%	-52.1%	10.0%	23.2%		

# 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.

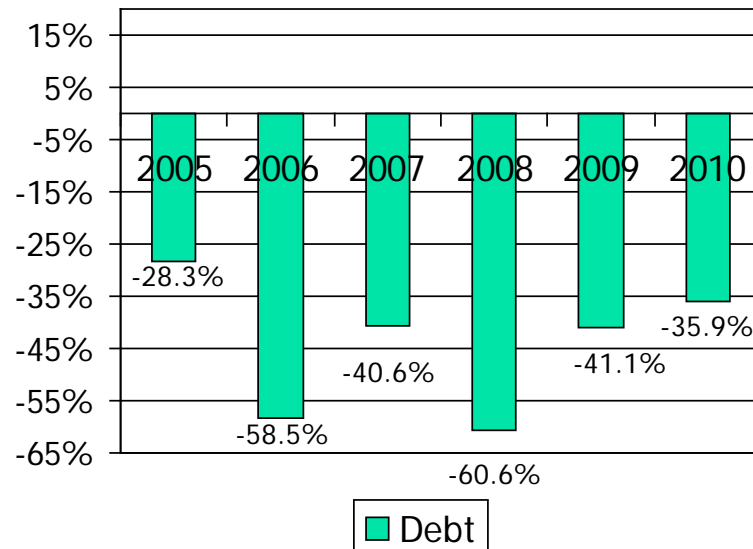
For the year ended September 30, 2010, Kosrae funded 132.5% of their expenses with current year revenues, which is considered an excellent ratio, and an increase from the prior year. This increase is primarily attributable to the value of donated capital assets.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
104.4%	78.6%	75%	78.3%	83.7%	73.4%	109.7%	132.5%		

# 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 Kosrae has at a point in time to fund emergencies, shortfalls or other unexpected needs.

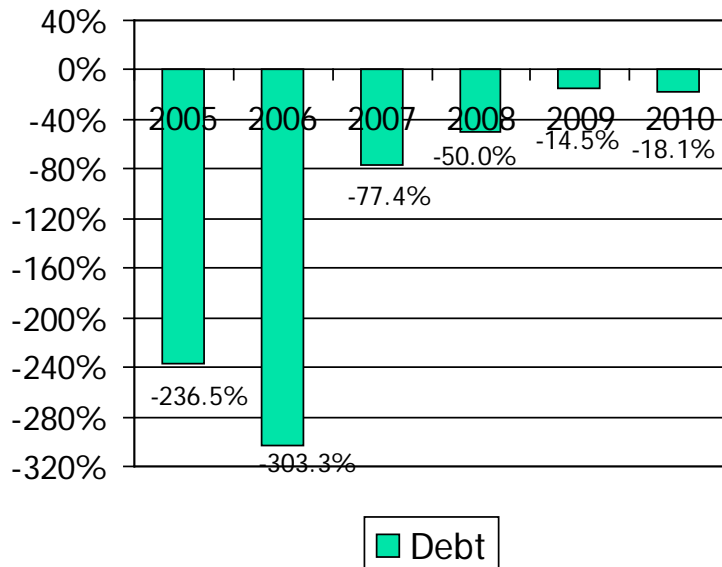
For the year ended September 30, 2010, Kosrae's total unrestricted net assets (deficit) approximated 35.9% of annual total revenues. This is considered an unsatisfactory financial indicator, although an improvement from the ratio of the prior year, and continues a two year trend of improvement.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
5.7%	-18.8%	-28.3%	-58.5%	-40.6%	-60.6%	-41.1%	-35.9%		

# 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 Kosrae has at a point in time to carryover into the next fiscal year to fund budgetary emergencies, shortfalls or other unexpected needs.

For the year ended September 30, 2010, Kosrae's unreserved fund balance (deficit) of the General Fund was \$0.4 million, or the equivalent of 18.1% of annual General Fund revenues. This is considered an unfavorable ratio, and is a decline from the ratio of the previous year.

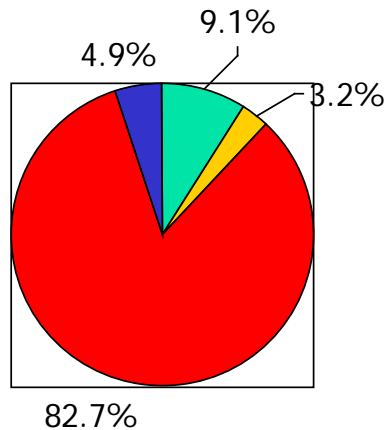
2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
-30%	-122.8%	-236.5%	-303.3%	-77.4%	-50.0%	-14.5%	-18.1%		



# Revenue Dispersion

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

2010 Revenue Percentages by Source



■ Taxes
 ■ Service Charges  
■ Grants and Contributions
 ■ Other

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

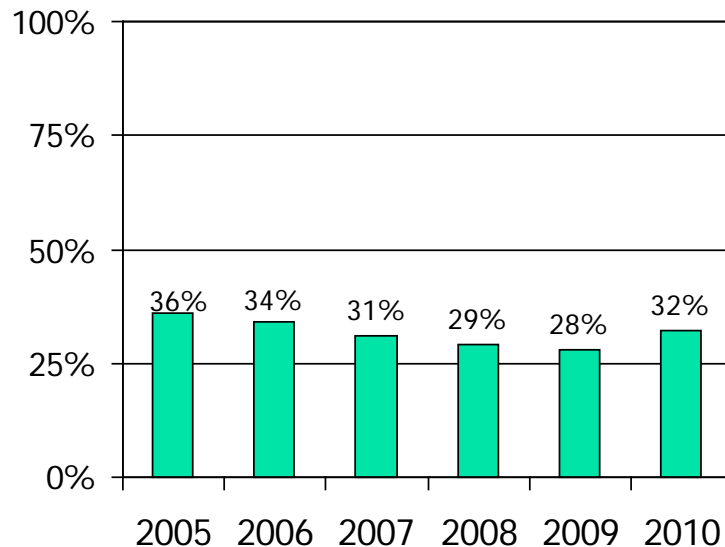
For the year ended September 30, 2010, Kosrae had direct control over 5.6% of its revenues, mostly charges for service and excise taxes. This ratio indicates Kosrae has significant exposure, as do most insular governments, to financial difficulties due to reliance (94.4%) on non-controlled revenues.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.7%	6.4%	4.9%	4.8%	5.7%	15.5%	7.1%	5.6%		

# 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.

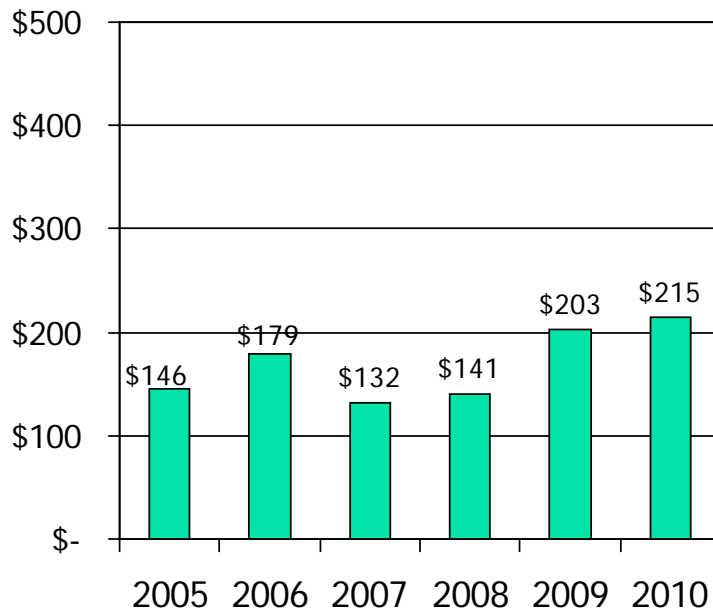
At September 30, 2010, Kosrae's depreciable capital assets amounted to \$56.8 million while accumulated depreciation totaled \$39 million. This indicates that, on the average, Kosrae's capital assets have 32% of their useful lives remaining. This is an unsatisfactory financial indicator, although it is a slight improvement from the prior year.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
41%	39%	36%	34%	31%	29%	28%	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 Kosrae's tax burden on its citizens and other taxpayers. The ratio includes all taxes, including business gross receipts, income and other taxes.

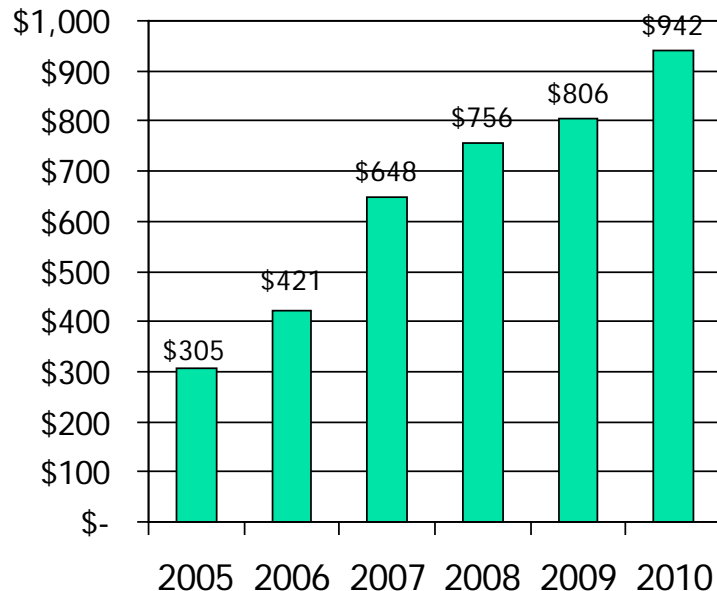
For the year ended September 30, 2010, total taxes amounted to \$1.42 million or \$215 per capita. This indicates a low tax burden, although higher than previous periods, but still considered low in relation to other insular governments. The primary reason for the slight increase in taxes per capita is a population decrease shown in the current census.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
\$155	\$157	\$146	\$179	\$132	\$141	\$203	\$215		

# 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 Kosrae's debt burden on its citizens and other taxpayers.

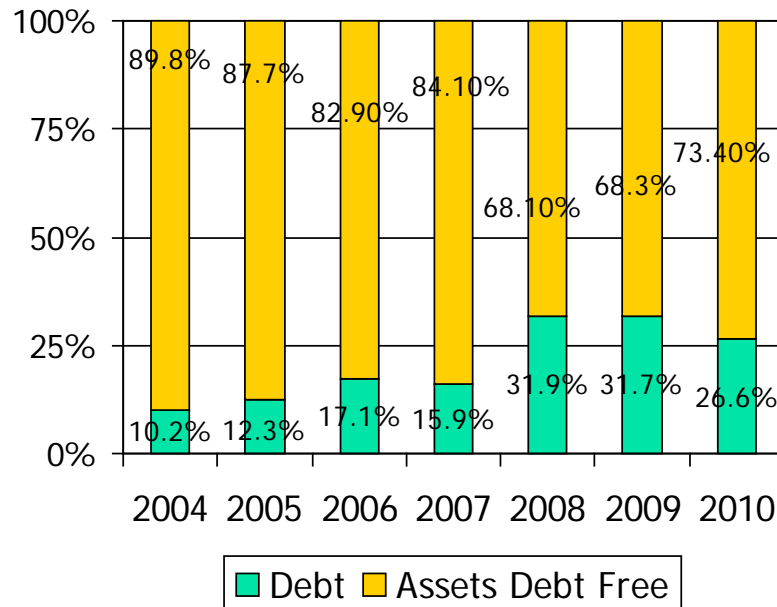
For the year ended September 30, 2010, Kosrae had \$6.2 million of long-term debt or \$942 per capita. This is still considered a low debt burden on its citizens, however it represents an increase from the ratio in the prior years. The primary reason for the increase in debt per capita is Kosrae's population decrease shown in the current census.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
\$310	\$305	\$305	\$421	\$648	\$756	\$806	\$942		

# Debt to Assets

## Who really owns Kosrae?

Percentage of Debt to Assets



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

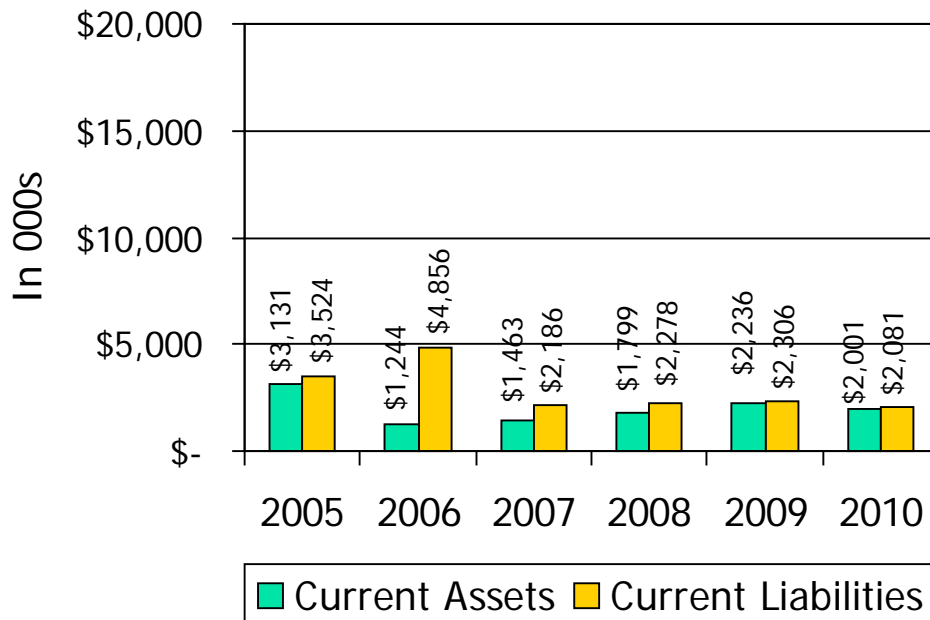
At September 30, 2010, 26.6% of Kosrae's \$27.5 million of total assets were funded with debt or other obligations. This is a favorable financial indicator and indicates that for each dollar of assets Kosrae owns, it owes 26.6 cents of that dollar to others. This ratio is relatively consistent with that of the prior period, but still considered a slight improvement.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
8.8%	10.2%	12.3%	17.1%	15.9%	31.9%	31.7%	26.6%		

# 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 Kosrae'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. The ratio only includes the General Fund, the primary operating fund.

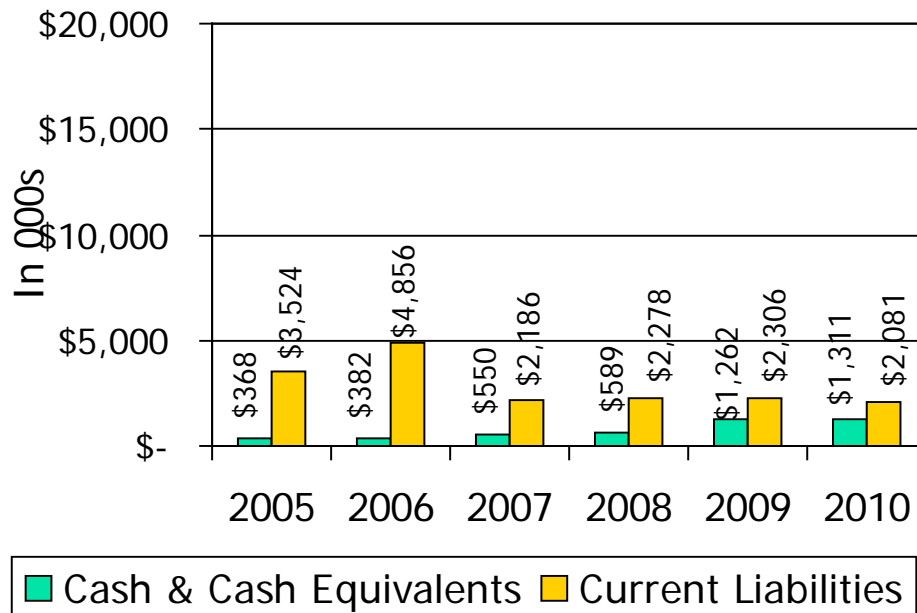
At September 30, 2010, Kosrae had a General Fund ratio of current assets to current liabilities of .96 to 1. This indicates that Kosrae has, for each dollar of current liabilities, 96 cents of current assets to fund them. This is an unfavorable financial ratio, and could be indicative of potential cash low problems. However, the ratio is consistent with the prior period.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1.84	1.11	.89	.26	.67	.79	.97	.96		

# Quick Ratio

How is our short-term cash position?

Cash and Cash Equivalents Compared to Current Liabilities



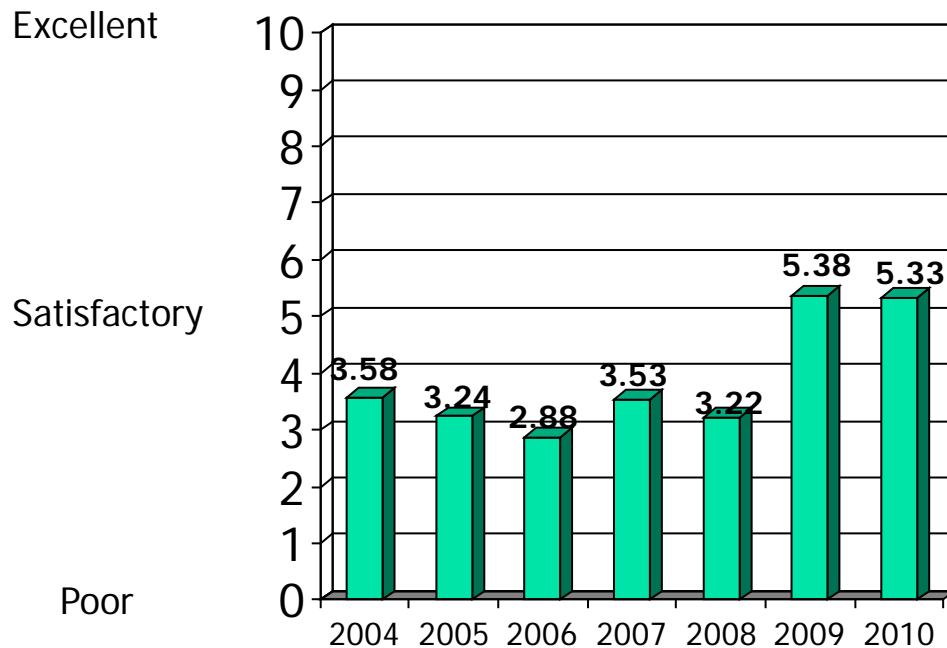
The quick ratio is another, more conservative, measure of Kosrae's ability to pay its short-term obligations. The quick ratio compares total cash and short-term investments to current liabilities. A quick ratio of 1.00 to 1 indicates adequate current liquidity and an ability to meet the short-term obligations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

At September 30, 2010, Kosrae had a General Fund ratio of cash and cash equivalents to current liabilities of .63 to 1. This indicates that Kosrae has, for every one dollar of current liabilities, 63 cents of cash and cash equivalents to fund them. This is an unfavorable financial indicator, and could be indicative of cash flow needs in the near future. However, it is an improvement from the ratio reported in the prior period.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
.54	.30	.10	.08	.25	.26	.55	.63		

# Performer<sup>®</sup> Reading

## Overall Reading



The 2010 reading of 5.33 indicates the evaluator's opinion that Kosrae's overall financial health and performance has decreased slightly from the previous period but remains satisfactory.

Kosrae showed slight improvements in Unrestricted Net Assets, Debt to Assets, and Quick Ratios but this improvement was offset by a decrease in the Budgetary Fund Balance causing a slight decrease in the overall reading in 2010. Total net assets increased by \$3.8M and is primarily attributable to the value of donated capital assets.





# 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.

# KOSRAE

	2005	2006	2007	2008	2009	2010
Number of F.S. Opinion Qualifications/Exceptions	4	0	0	0	0	0
Number of Major Federal Program Qualifications/Exceptions	3	3	2	2	0	0
Number of F.S. Findings						
A. Internal Control and Compliance	0	0	0	0	0	0
B. Internal Control Only	11	8	3	2	2	1
C. Compliance Only	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	11	8	4	2	2	1
Percentage of Findings Repeated	27.3%	25%	0%	50%	100%	0%
Number of A-133 Findings						
A. Internal Control and Compliance	11	8	8	2	0	0
B. Internal Control Only	0	0	0	0	0	0
C. Compliance Only	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	11	8	8	2	0	0
Percentage of A-133 Findings Repeated	0%	62.5%	38%	50%	0%	0%
Number of months Y/E the F.S. were Released	9	9	9	9	9	9
Number of Qualifications/Exceptions Related to C.U.	1	0	0	0	0	0
\$ of Questioned Costs-Current Year	\$462,459	\$694,514	\$162,753	\$0	\$0	\$0
\$ of Questioned Costs- Cumulative	\$875,725	\$1,506,567	\$1,553,913	\$463,367	\$0	\$0
\$ of Questioned Costs Resolved – Current Year	\$0	\$63,682	\$115,407	\$1,205,963	\$463,367	\$0



# Thank You

---

We would like to commend and thank the Government of Kosrae'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 Kosrae's annual financial report.

Visit our website at [www.crawfordcpas.com](http://www.crawfordcpas.com) for other useful tools for governments.