

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[®] 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, 2006



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 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

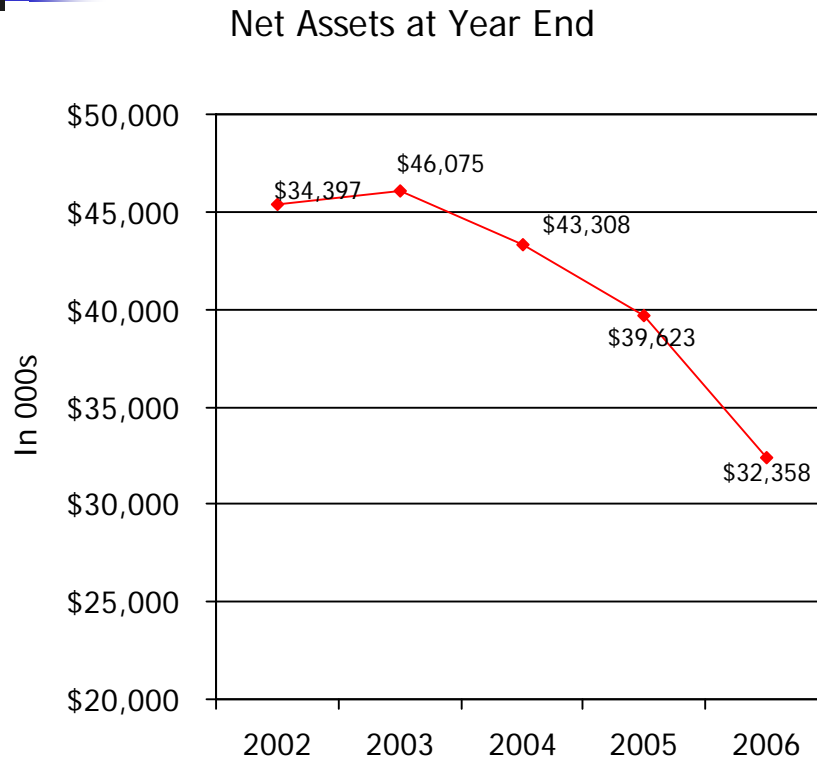


Limitations of the Performer®

- 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 include all assets of Kosrae. It is measured as the difference between total assets, including capital assets, and total liabilities, including long-term debt.

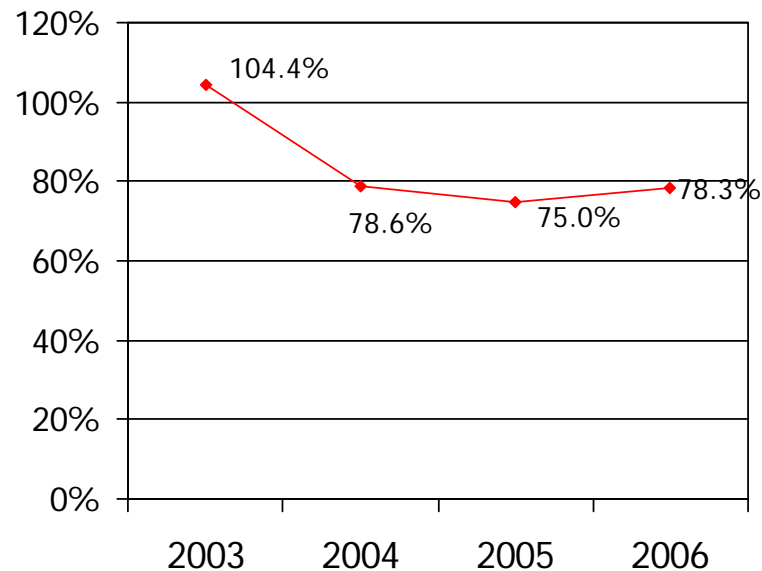
For the year ended September 30, 2006, total net assets decreased by \$7.27 million or 18.3% from the prior year. This decrease is the result of incurring more expense than revenue earned in the current fiscal year, and continues a decline in net assets that began in the 2003-2004 fiscal year.

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

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.

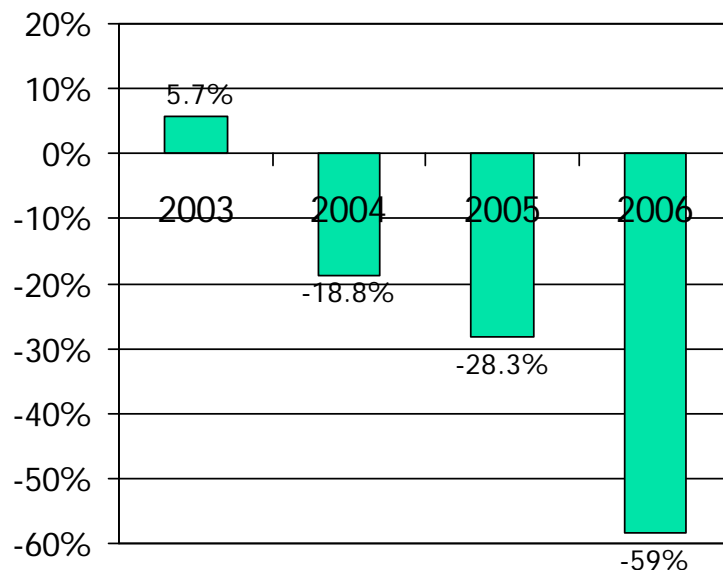
For the year ended September 30, 2006, Kosrae funded 78.3% of their expenses with current year revenues, which is an unfavorable measure. For every \$1 of expenses incurred during the year, Kosrae generated only 78.3 cents of current year revenues to fund them. However, this is a slight improvement of the ratio of the prior year.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
104.4%	78.6%	75%	78.3%						

Level of Unrestricted Net Assets

How do our total rainy day funds look?

Unrestricted Net Assets 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.

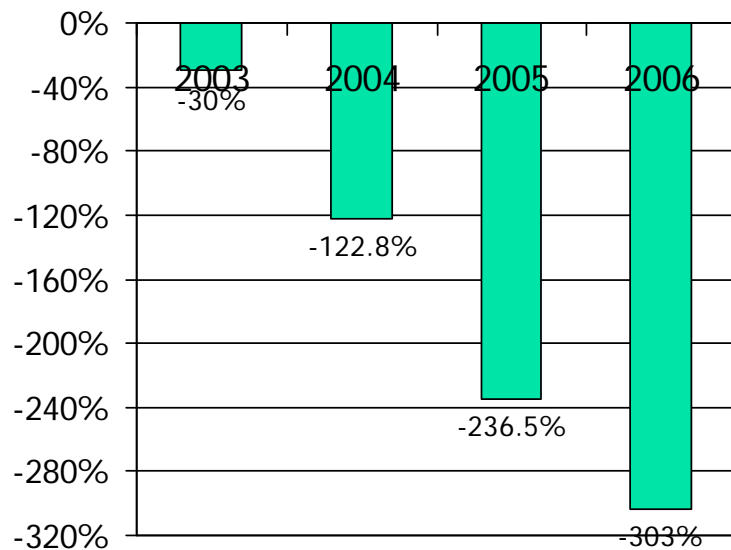
For the year ended September 30, 2006, Kosrae's total unrestricted net assets deficit was \$6.85 million, which is equivalent to 58.5% of annual total revenues. This is an unsatisfactory financial indicator, and continues a downward trend in unrestricted net assets, and an increase in the unrestricted net asset deficit. This is generally a result of continuing to fund normal, recurring operating expenses without generating new current revenues.

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

Level of Budgetary Fund Balance

How does our budgetary carryover look?

Budgetary Unreserved Fund Balance
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.

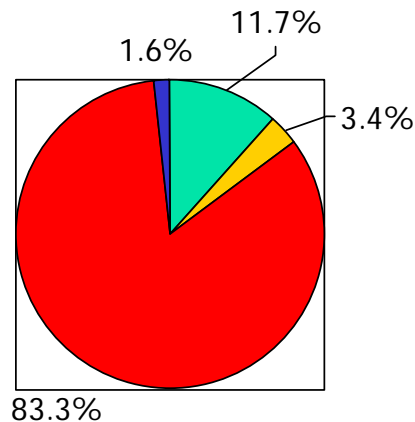
For the year ended September 30, 2006, Kosrae's unreserved fund balance deficit of the General Fund was \$4.99 million, or the equivalent of 303.3% of annual General Fund revenues. This ratio continues a downward trend of General Fund fund balance over the past few years and an increase in the General Fund fund balance deficit.

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

Revenue Dispersion

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

2006 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.

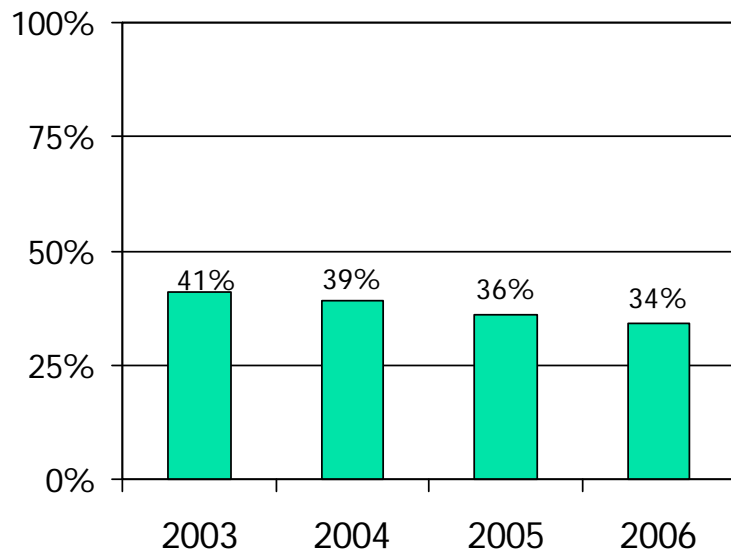
For the year ended September 30, 2006, Kosrae had direct control over 4.8% of its revenues. This ratio indicates Kosrae has significant exposure, as do most governments, to financial difficulties due to reliance (95.2%) on non-controlled revenues.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
4.7%	6.4%	4.9%	4.8%						

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.

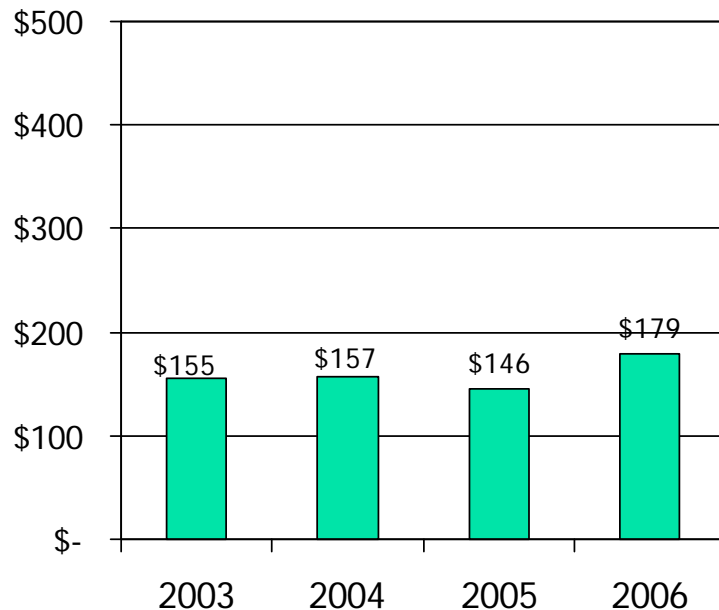
At September 30, 2006, Kosrae's depreciable capital assets amounted to \$89.9 million while accumulated depreciation totaled \$59.5 million. This indicates that, on the average, Kosrae's capital assets have 34% of their useful lives remaining. This is an unsatisfactory financial indicator, and continues a downward trend for the years shown.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
41%	39%	36%	34%						

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.

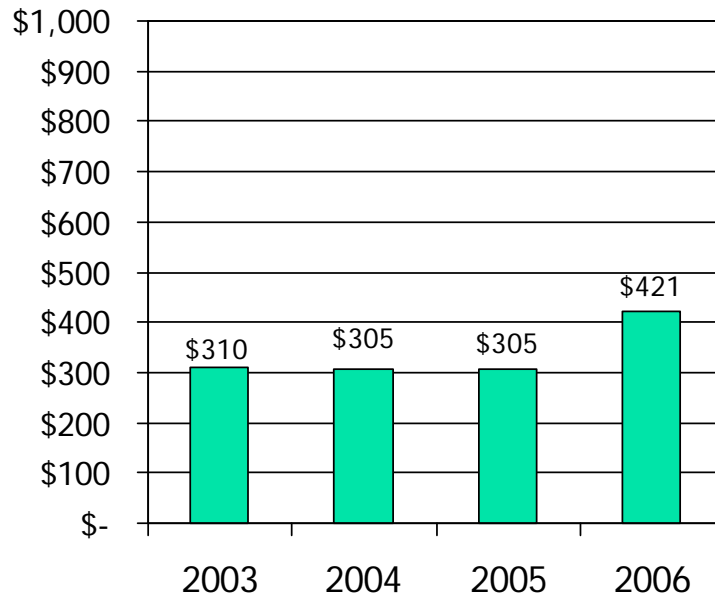
For the year ended September 30, 2006, total taxes amounted to \$1.37 million or \$179 per capita. This indicates a low tax burden, and is relatively consistent with the prior years.

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

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.

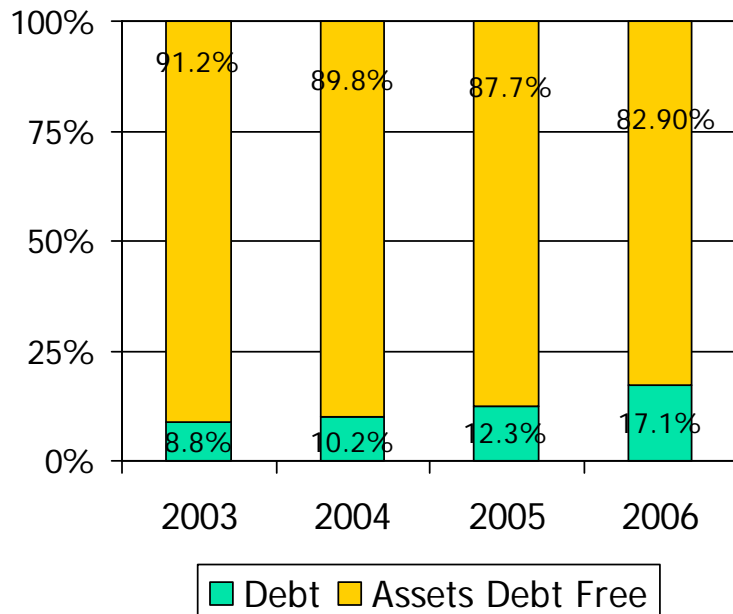
For the year ended September 30, 2006, Kosrae had \$3.24 million of long-term debt or \$421 per capita. This is considered a low debt burden on its citizens, however it represents a significant increase from the ratio in the prior years. The increase was due to the issuance of new ADB loans in the amount of \$991,000 during the year.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
\$310	\$305	\$305	\$421						

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.

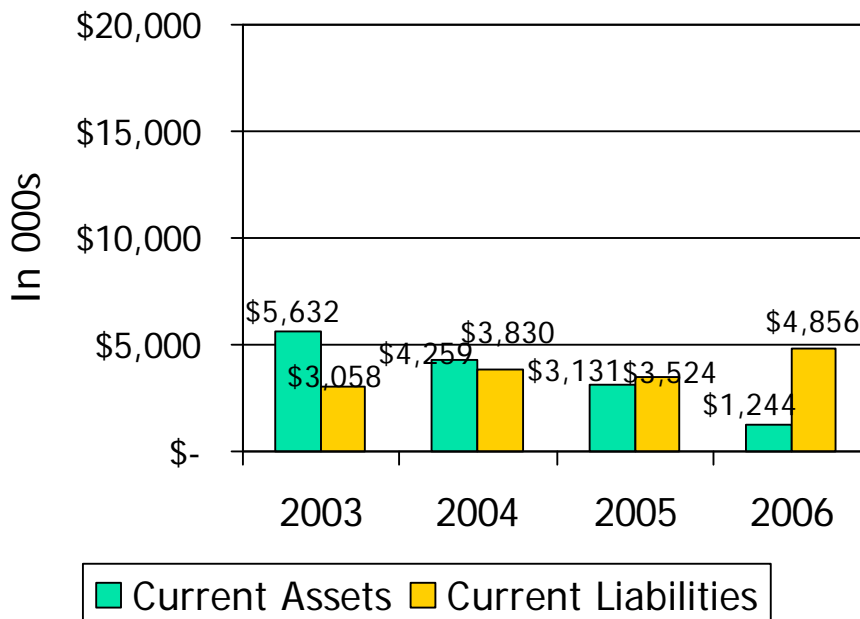
At September 30, 2006, nearly 1/5th of Kosrae's \$39 million of total assets were funded with debt or other obligations. This is a favorable financial indicator and indicates that for each dollar of assets Kosrae owns, it owes 17.1 cents of that dollar to others. Although still a favorable ratio, it has continued to decline over the past few years.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
8.8%	10.2%	12.3%	17.1%						

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.

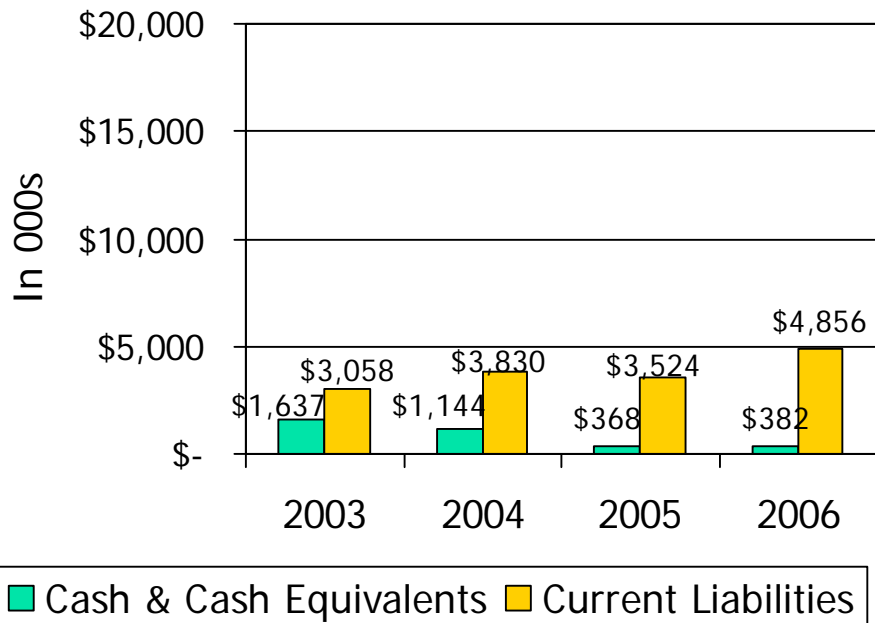
At September 30, 2006, Kosrae had a General Fund ratio of current assets to current liabilities of .26 to 1. This indicates that Kosrae has, for each dollar of current liabilities, 26 cents of current assets to fund them. This is an unfavorable financial ratio, and could be indicative of potential cash low problems. In addition, the ratio has consistently declined each year.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1.84	1.11	.89	.26						

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.

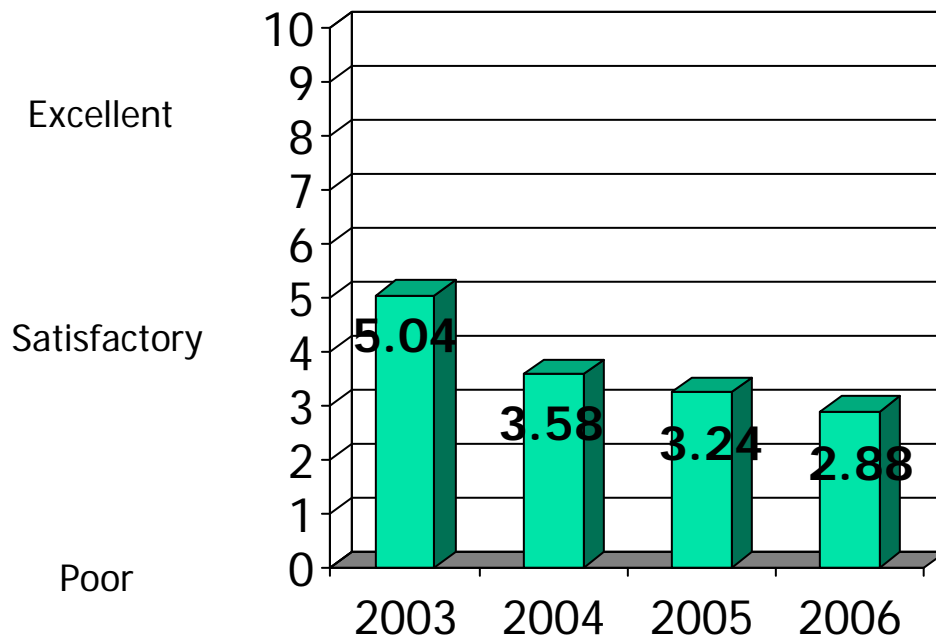
At September 30, 2006, Kosrae had a General Fund ratio of cash and cash equivalents to current liabilities of .08 to 1. This indicates that Kosrae has, for every one dollar of current liabilities only 8 cents of cash and cash equivalents to fund them. This is an unfavorable financial indicator, and could be indicative of cash flow needs in the near future, and continues a decline in this indicator over the past few years.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
.54	.30	.10	.08						



Performer[®] Reading

Overall Reading



The 2006 reading of 2.88 indicates the evaluator's opinion that Kosrae's overall financial health and performance are less than satisfactory as of and for the fiscal year ended September 30, 2006, and has continued to decline over the last four years.

Kosrae's decline in net assets, insufficient intergenerational equity, insufficient unrestricted net assets and unreserved fund balance of the General Fund, limited useful lives remaining of capital assets, and low current and quick ratios are the primary cause of the continued low readings.



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
Number of F.S. Opinion Qualifications/Exceptions		5	4	4	0
Number of Major Federal Program Qualifications/Exceptions		2	3	3	3
Number of F.S. Findings					
A. Internal Control and Compliance		0	0	0	0
B. Internal Control Only		7	9	11	8
C. Compliance Only		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL		7	9	11	8
Percentage of Findings Repeated		71.4%	44.4%	27.3%	25%
Number of A-133 Findings					
A. Internal Control and Compliance		2	9	11	8
B. Internal Control Only		0	0	0	0
C. Compliance Only		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL		2	9	11	8
Percentage of A-133 Findings Repeated		0%	11.1%	0%	62.5%
Number of months Y/E the F.S. were Released		30	21	9	9
Number of Qualifications/Exceptions Related to C.U.		1	1	1	0
\$ of Questioned Costs-Current Year		\$103,493	\$237,645	\$462,459	\$694,514
\$ of Questioned Costs- Cumulative		\$175,631	\$413,276	\$875,725	\$1,506,567
\$ of Questioned Costs Resolved – Current Year		\$0	\$0	\$0	\$63,682



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 - USDA for allowing us to present this financial analysis. We hope it serves as a useful and understandable compliment to Kosrae's annual financial report.

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