

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



and a

Status Report of <u>Audit Findings</u>, <u>Timeliness and Exception Resolution (A.F.T.E.R.)</u>

of

The Government of Yap as of and for the Year Ended September 30, 2010





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

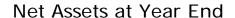


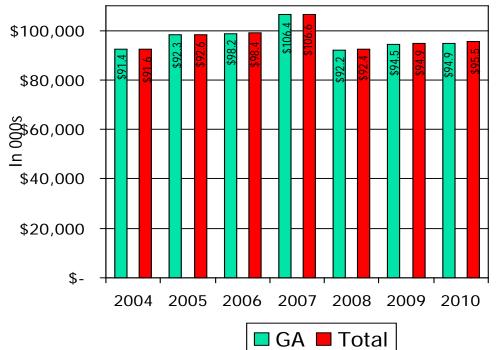
#### Limitations of the Performeter®

- The Performeter® should not be used as the only source of financial information to evaluate Yap's performance and condition
- The analysis is an overall rating of Yap as a whole and not of specific activities, funds or units
- The Performeter® 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 Yap. 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 \$.54M, or .6%.

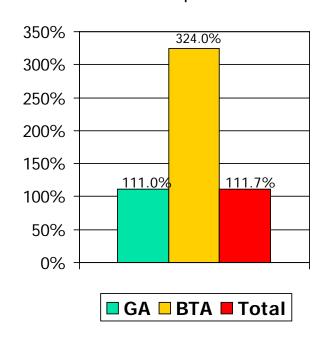
Governmental activities (GA) net assets increased by \$.375M, while business-type activities (BTA) increased by \$.165M.

Net Assets remained consistent with the previous period.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
11.8%	0.5%	4.7%	.1%	3.9%	-13.3%	0.5%	0.6%		

# Intergenerational Equity Who is paying for today's costs of services?

2010 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.

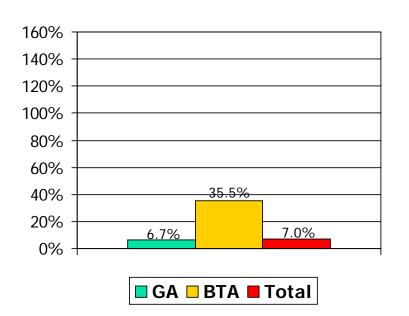
For the year ended September 30, 2010, Yap funded 111.7% of their expenses with current year revenues, an improvement from the ratio of prior year.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
134.1%	102.6%	117.6%	102.6%	117.5%	84.7%	101.9%	111.7%		

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

For the year ended September 30, 2010, Yap's total unrestricted net assets approximated 7.0% of annual total revenues, a significant decline from the previous period due to the mandate of YSL No. 7-17 which placed \$30M of Yap's previously unrestricted net assets into a restricted category.

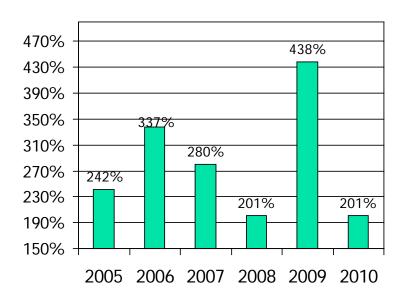
After this mandate, the governmental activities had a 6.7% level of unrestricted net assets, while business-type activities had a 35.5% level.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
64.7%	137.6%	115.4%	148.6%	122.2%	120.3%	94.6%	7.0%		

# 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 Yap 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.

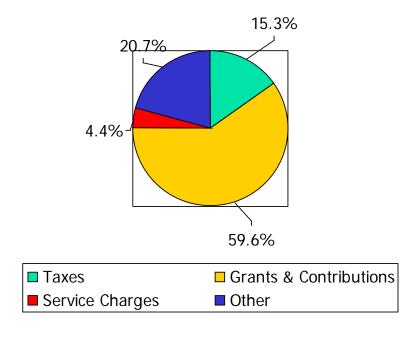
For the year ended September 30, 2010, Yap's unreserved fund balance of the General Fund was 200.6% of total general fund revenues. This is a very favorable financial indicator, although a significant decline from the previous period due to the mandate of YSL No. 7-17 which placed \$30M of Yap's previously unreserved fund balance into a new permanent trust fund.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
110.5%	251.2%	241.7%	337.3%	280.1%	200.7%	438.3%	200.6%		

# Revenue Dispersion

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

2010 Revenue Percentages by Source



The percentage dispersion of revenue by source indicates how dependent Yap is on certain types of revenue. The more dependent Yap is on revenue sources beyond its direct control, such as revenue sharing taxes and from other governments such as grants, the less favorable the dispersion.

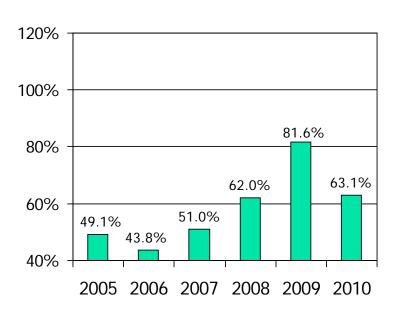
For the year ended September 30, 2010, Yap had direct control of 10% of its revenues. This ratio indicates Yap has some exposure, as do most insular governments, to financial difficulties due to reliance on non-controlled revenue (90%).

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
6.8%	11.6%	9%	11.8%	8.6%	10.7%	11.9%	10.0%		

# BTA Self-Sufficiency

Did current year business-type activities (BTA) pay for themselves?





The self-sufficiency ratio indicates the level at which business-type activities covered their current costs with current year revenues, without having to rely on subsidies or use of prior year reserves.

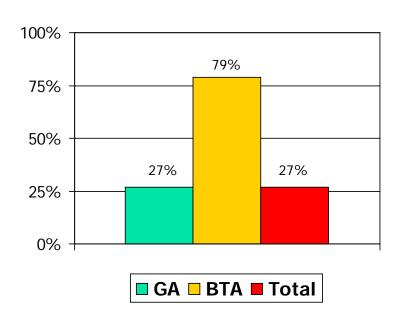
For the year ended September 30, 2010, Yap's total business-type activities were 63.1% self-sufficient, a decline from that of the prior year. This indicates the business-type activities still require a subsidy to cover costs of operations, the use of grant proceeds, or the use of unrestricted reserves to fund expenses.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
53.8%	62.6%	49.1%	43.8%	51.0%	62.0%	81.6%	63.1%		

# 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.

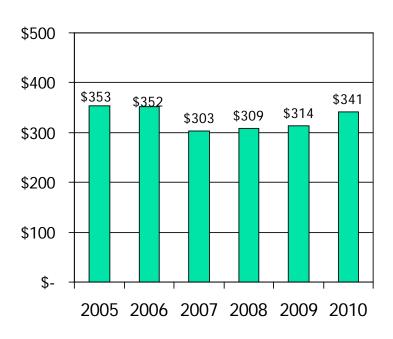
At September 30, 2010, Yap's depreciable capital assets amounted to \$110.2 million while accumulated depreciation totaled \$80.5 million. This indicates that, on the average, Yap's capital assets have 27% of their useful lives remaining. This is an unsatisfactory financial indicator and could be indicative of a need for large amounts of capital expenditures in the near future. The ratio is relatively consistent over the past few periods.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
37%	36%	35%	34%	31%	32%	29%	27%		

# Financing Margin - Taxes

Will our citizens be willing to pay increased taxes for operations or capital improvements, if needed?





The financial ratio of taxes per capita is an indication of Yap's tax burden on its citizens and other taxpayers. The ratio includes all taxes, including gross receipts, income and other taxes.

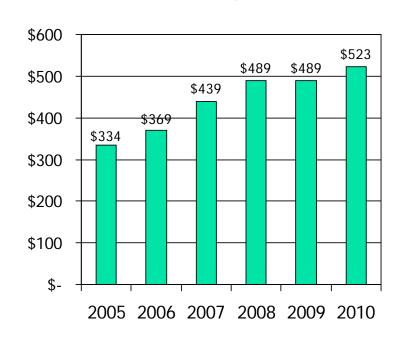
For the year ended September 30, 2010, total taxes amounted to \$3.9 million or \$341 per capita, which is an increase over the prior period and indicates a low tax burden on Yap's citizens, when compared to other insular governments.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
\$232	\$336	\$353	\$352	\$303	\$309	\$314	\$341		

# 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 Yap's debt burden on its citizens and other taxpayers. The ratio does not consider debt payable from enterprise activities or alternate revenues.

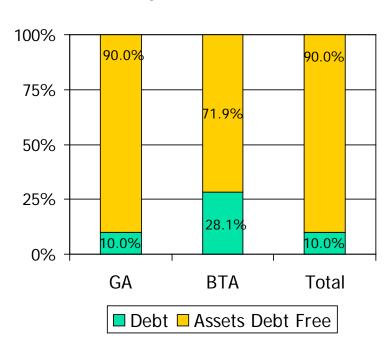
For the year ended September 30, 2010, Yap had approximately \$6 million of long-term debt or \$523 per capita. This is considered a low debt burden on its citizens, when compared to other insular governments.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
\$332	\$334	\$334	\$369	\$439	\$489	\$489	\$523		

#### Debt to Assets

#### How much equity does Yap have in it's assets?

#### Percentage of Debt to Assets



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

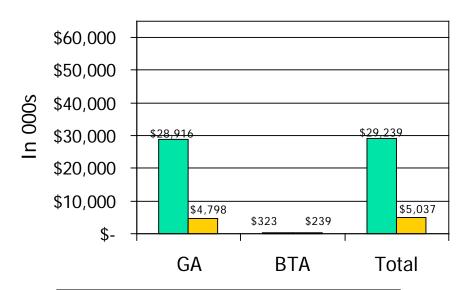
At September 30, 2010, 10% of Yap's \$106.1 million of total assets were funded with debt or other obligations. This is a very favorable financial indicator and indicates that for each dollar of assets Yap owns, it owes 10 cents of that dollar to others.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
7.2%	8.1%	6.8%	9.6%	9.0%	11.0%	10.1%	10.0%		

### **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

The current ratio is one measure of Yap'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 only includes the General Fund, which is Yap's primary operating fund.

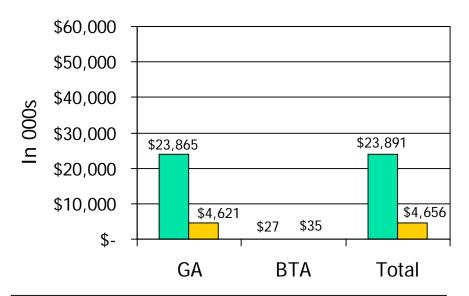
At September 30, 2010, Yap had a General Fund ratio of current assets to current liabilities of 5.81 to 1. This indicates that Yap had nearly six times the amount of current assets to pay current liabilities, and is an extremely favorable indicator of liquidity, although a decrease in the ratio from the prior period due mainly to the impact of the \$30M restriction via YSL 7-17.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
2.42	8.93	3.46	3.23	3.50	3.12	8.69	5.81		

### **Quick Ratio**

#### How is our short-term cash position?

#### Cash and Cash Equivalents Compared to Current Liabilities



■ Cash & Cash Equivalents □ Current Liabilities

The quick ratio is another, more conservative, measure of Yap'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 measures only the General Fund, which is Yap's primary operating fund.

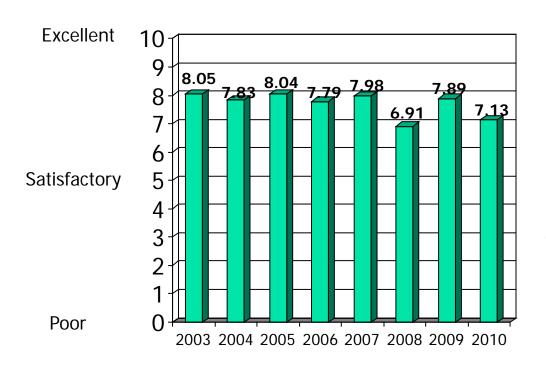
At September 30, 2010, Yap had a General Fund ratio of cash and cash equivalents to current liabilities of 5.13 to 1. This indicates that Yap had nearly \$5.13 in cash and short-term investments for every \$1 of current liabilities. This is considered an extremely favorable indicator of liquidity, although a decrease from the previous period due mainly to the impact of the \$30M restriction via YSL 7-17.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
2.18	7.47	2.93	2.91	2.93	2.72	7.54	5.13		



# Performeter® Reading

#### **Overall Reading**



The 2010 reading of 7.13 indicates the evaluator's opinion that the Government of Yap's overall financial health and performance is well above satisfactory, although a decline from the previous period due in a large part to the mandate of YSL No. 7-17 which placed \$30M of Yap's previously unrestricted net assets into a restricted category via a new permanent fund trust.

Yap's General Fund's level of unreserved fund balance, low tax and debt burdens per capita, an excellent debt-to-asset ratio, and excellent current and quick ratios are the primary reasons for the continued favorable reading.

# 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. YAP

	2004	2005	2006	2007	2008	2009	2010
Number of F.S. Opinion Qualifications/Exceptions	2	2	1	2	2	0	0
Number of Major Federal Program Qualifications/Exceptions	4	3	4	4	5	4	5
Number of F.S. Findings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	0 7 <u>0</u> 7	4 0 <u>0</u> 4	4 2 <u>0</u> 6	0 0 1 1	0 3 <u>0</u> 3	0 4 <u>0</u> 4	0 2 <u>0</u> 2
Percentage of Findings Repeated	0%	75%	66.7%	17%	33%	50%	100%
Number of A-133 Findings A. Internal Control and Compliance B. Internal Control Only C. Compliance Only TOTAL	5 0 <u>0</u> 5	3 0 <u>0</u> 3	5 2 <u>0</u> 7	11 0 <u>0</u> 11	11 0 <u>0</u> 11	0 2 <u>5</u> 7	4 0 <u>0</u> 4
Percentage of A-133 Findings Repeated	20%	33.3%	0%	14%	18%	57%	100%
Number of months after Y/E the F.S. were Released	19	9	9	9	9	8	8
Number of Qualifications/Exceptions Related to C.U.	1	1	1	1	2	0	0
\$ of Questioned Costs-Current Year	\$33,196	\$22,008	\$576,358	\$1,282,244	\$1,862,194	\$376,295	\$150,534
\$ of Questioned Costs- Cumulative	\$378,679	\$292,920	\$869,278	\$2,036,443	\$3,376,248	\$2,494,249	\$1,729,116
\$ of Questioned Costs Resolved – Current Year	\$54,770	\$107,767	\$0	\$115,079	\$552,389	\$681,936	\$915,667



We would like to commend and thank Yap'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 compliment to Yap's annual financial report.

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