



PERFORMER.

THE PERFORMER®

And 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 FSM National Government  
as of and for the Year Ended September 30, 2010



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



# What Is The Performer®?

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- 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 the FSM National Government's financial health and performance



# How to Use The Performer®

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- Use the individual ratios to identify financial warning signals
- Use the overall rating as a collective benchmark of financial health and success of the FSM National Government as a whole
- Use the comparisons to prior years to monitor trends in financial indicators



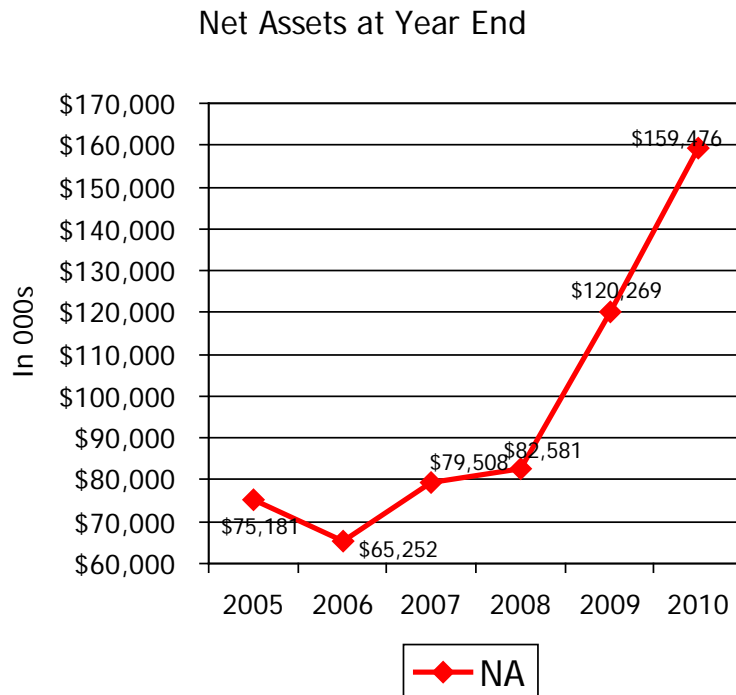
# Limitations of the Performer®

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

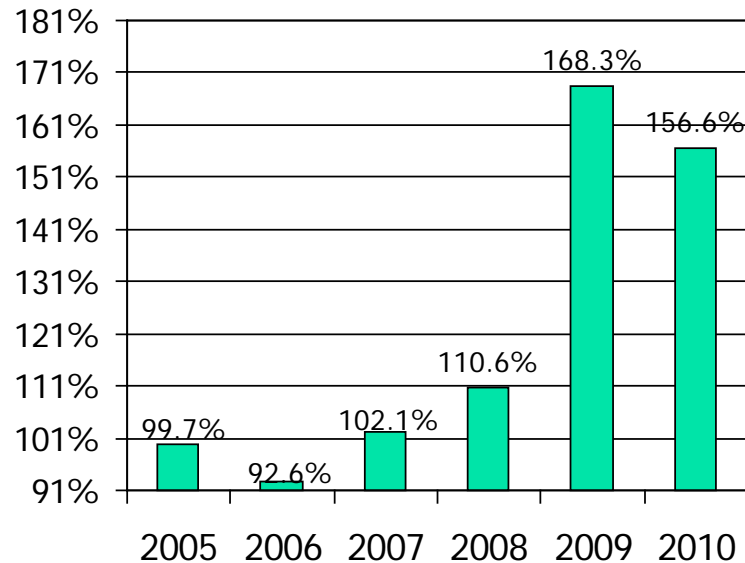
For the year ended September 30, 2010, total net assets increased by \$39.2 million or 32.6% from the prior year. The improvement is primarily due to the receipt of grants for infrastructure and airport improvements.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
-2.8%	1.8%	.2%	-13.2%	21.8%	3.9%	45.6%	32.6%		

# 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.

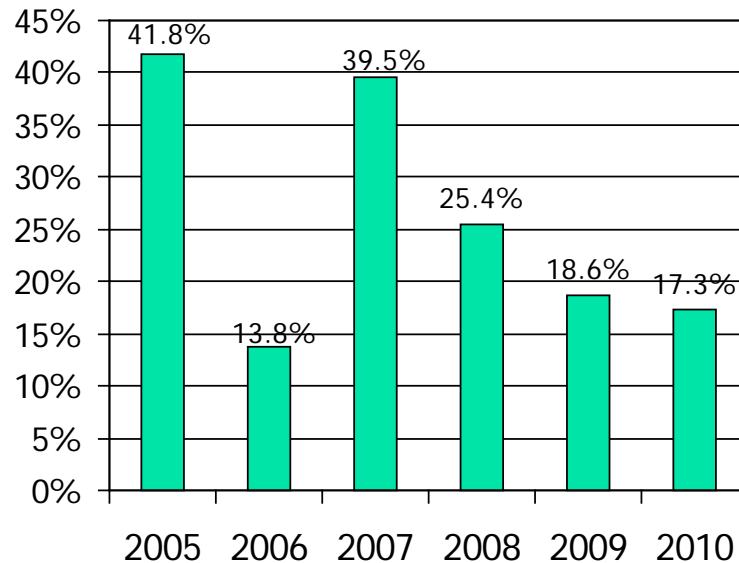
For the year ended September 30, 2010, the FSM National Government funded 156.6% of their expenses with current year revenues, which is considered an excellent ratio, although a slight decrease from the prior year. Grants for the infrastructure and airport improvement projects were the primary reason for the continued excellent ratio.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
96.3%	104.2%	99.7%	92.6%	102.1%	110.6%	168.3%	156.6%		

# 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 the FSM National Government has at a point in time to fund emergencies, shortfalls or other unexpected needs.

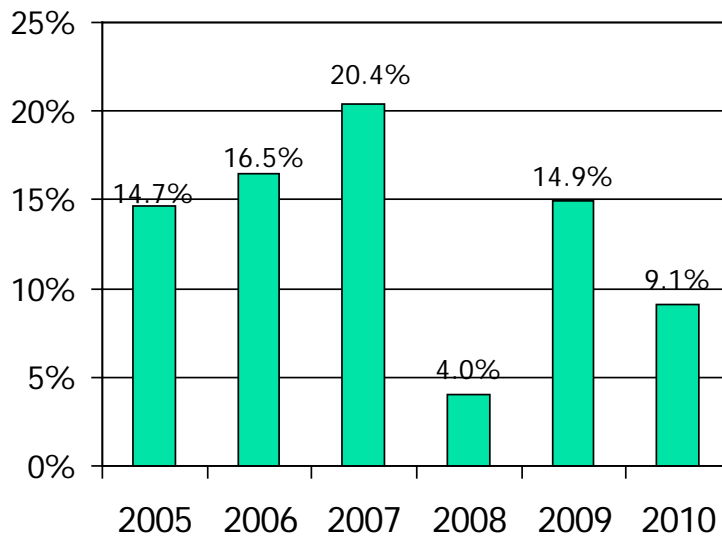
For the year ended September 30, 2010, the FSM National Government's total unrestricted net assets approximated 17.3% of annual total revenues. This is considered an above satisfactory ratio, but it is a slight decline from the ratio reported in the prior period.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
28.5%	46.9%	41.8%	13.8%	39.5%	25.4%	18.6%	17.3%		

# 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 the FSM National Government 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, the FSM National Government's unreserved fund balance of the General Fund was approximately 9.1% of annual revenues. This is considered a near satisfactory indicator, although a decrease from the ratio calculated in the prior period.

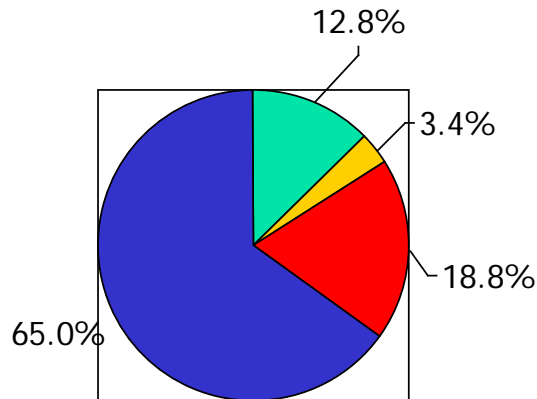
2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
-8.5%	-4.9%	14.7%	16.5%	20.4%	4.0%	14.9%	9.1%		



# 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 the FSM National Government is on certain types of revenue. The more dependent the FSM National Government is on revenue sources beyond its direct control, such as revenues from other governments such as grants, the less favorable the dispersion.

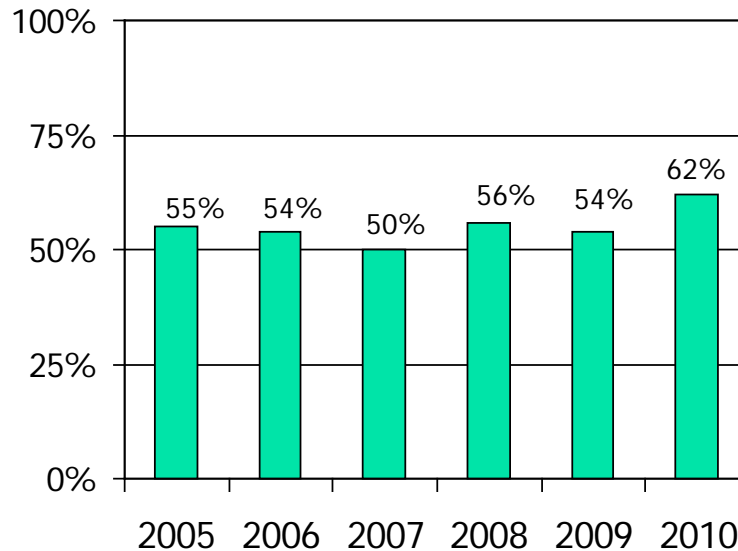
For the year ended September 30, 2010, the FSM National Government had direct control over 16.3% of its revenues, including charges for services and some taxes. This ratio indicates the FSM National Government has exposure, as do most insular governments, to financial difficulties due to reliance (83.7%) on non-controlled revenues.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
20.7%	29.9%	25.1%	26.7%	20.4%	24.8%	16.0%	16.3%		

# 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.

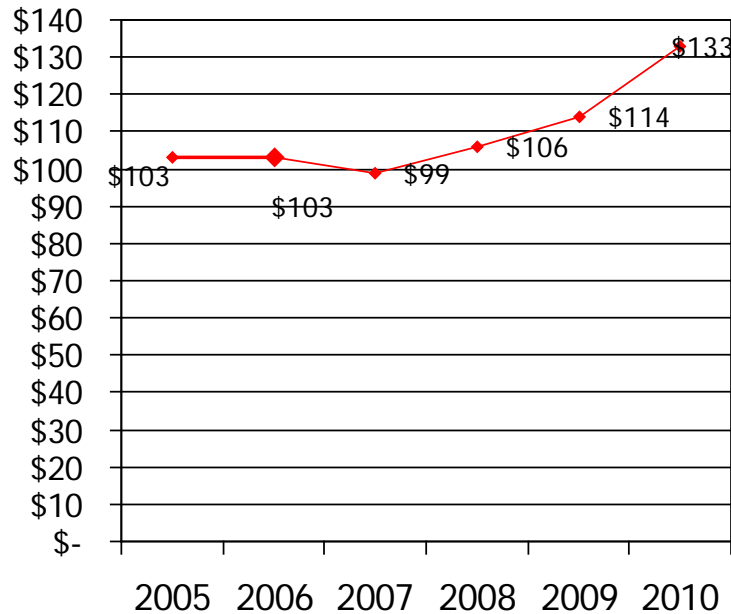
At September 30, 2010, the FSM National Government's depreciable capital assets amounted to \$83.0 million while accumulated depreciation totaled \$31.0 million. This indicates that, on the average, the FSM National Government's capital assets have 62% of their useful lives remaining. This is an above satisfactory financial indicator, and is a significant improvement when compared to ratios of the prior periods.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
59%	58%	55%	54%	50%	56%	54%	62%		

# 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 the FSM National Government's tax burden on its citizens and other taxpayers. The ratio includes all taxes, including gross receipts, income and other taxes.

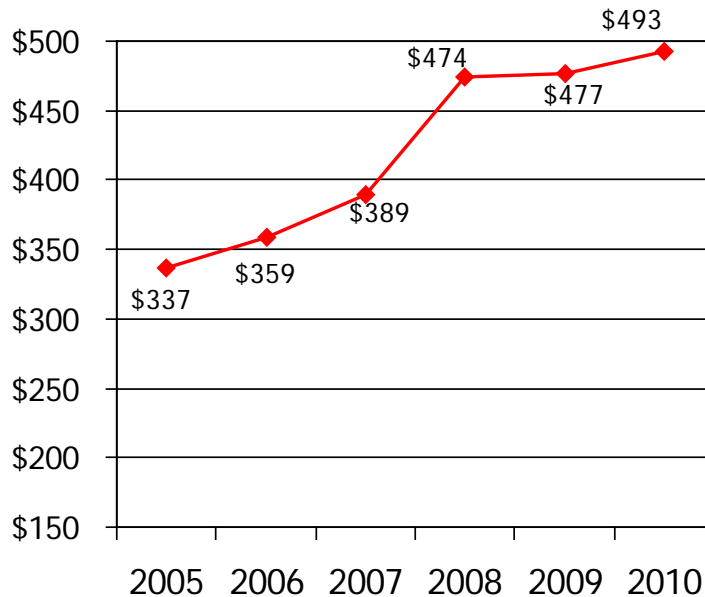
For the year ended September 30, 2010, total taxes amounted to \$13.7 million or \$133 per capita. This indicates a very favorable tax burden when compared to other insular governments, and is primarily due to a decrease in population from the last census and a \$.757 million increase in corporate tax revenues.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
\$57	\$89	\$103	\$103	\$99	\$106	\$114	\$133		

# 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 the FSM National Government's debt burden on its citizens and other taxpayers.

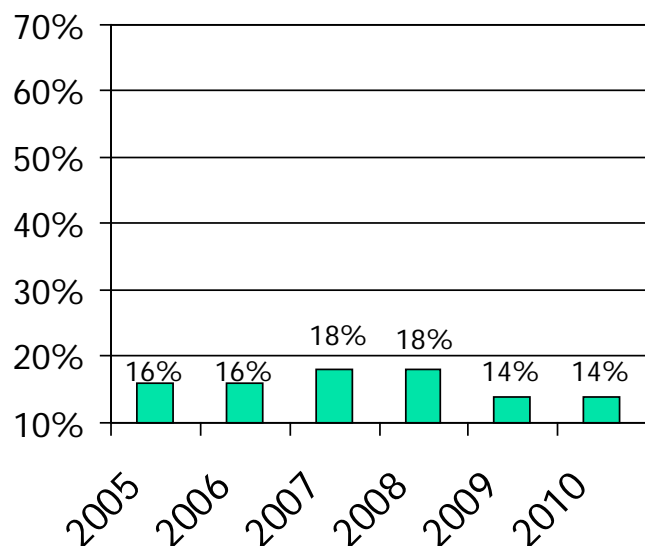
For the year ended September 30, 2010, the FSM National Government had \$51 million in long-term debt, or \$493 per capita which is considered a low debt burden on its citizens when compared to other insular governments, and has remained relatively consistent with that of prior periods although it did increase slightly this year due to a decrease in population from the last census.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
\$317	\$326	\$337	\$359	\$389	\$474	\$477	\$493		

# 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 under-funded at the valuation date.

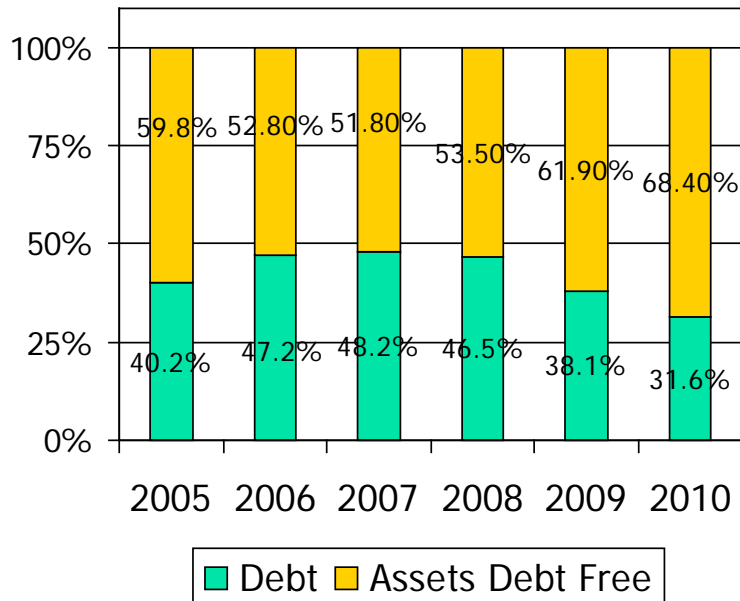
At September 30, 2010, based upon the latest available actuarial information, the FSM's pension plan assets were 14% of the accrued pension benefit liability, indicating the plan was less than 1/5th funded at the last valuation date, and an indicator of potential long-term cash demands to fund the future needs of the plan.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
21%	16%	16%	16%	18%	18%	14%	14%		

# Debt to Assets

## Who really owns the FSM National Government?

Percentage of Debt to Assets



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

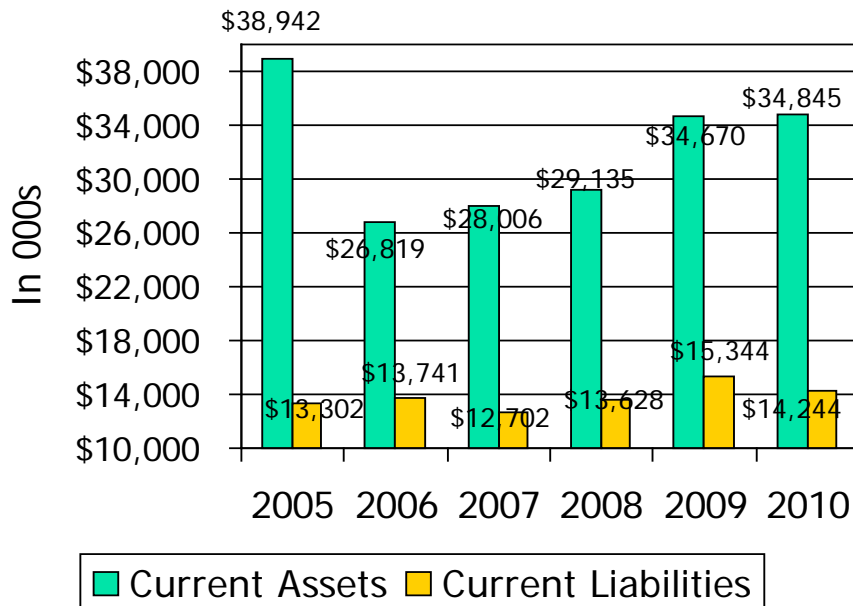
At September 30, 2010, 31.6% of the FSM National Government's \$233 million of total assets were funded with debt or other obligations. This is an above satisfactory financial indicator and indicates that for each dollar of assets the FSM National Government owns, it owes 31.6 cents of that dollar to others. This ratio continues a three year improvement trend.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
41.4%	41.2%	40.2%	47.2%	48.2%	46.5%	38.1%	31.6%		

# 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 the FSM National Government'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 analysis uses only the General Fund, the primary operating fund of the FSM National Government.

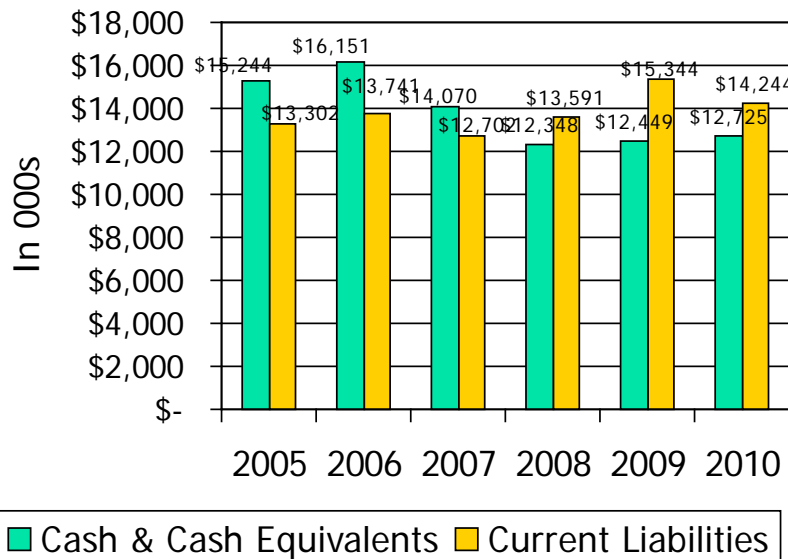
At September 30, 2010, the FSM National Government General Fund had a ratio of current assets to current liabilities of 2.45 to 1. This indicates that the FSM National Government General Fund had almost two and one half times the amount of current assets to pay current liabilities, and although it is less than satisfactory, it is an improvement with the ratio reported in the prior period, and continues a three year improvement trend.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
2.23	2.61	2.93	1.95	2.20	2.14	2.26	2.45		

# 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 the FSM National Government'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 analysis uses only the General Fund, the primary operating fund of the FSM National Government.

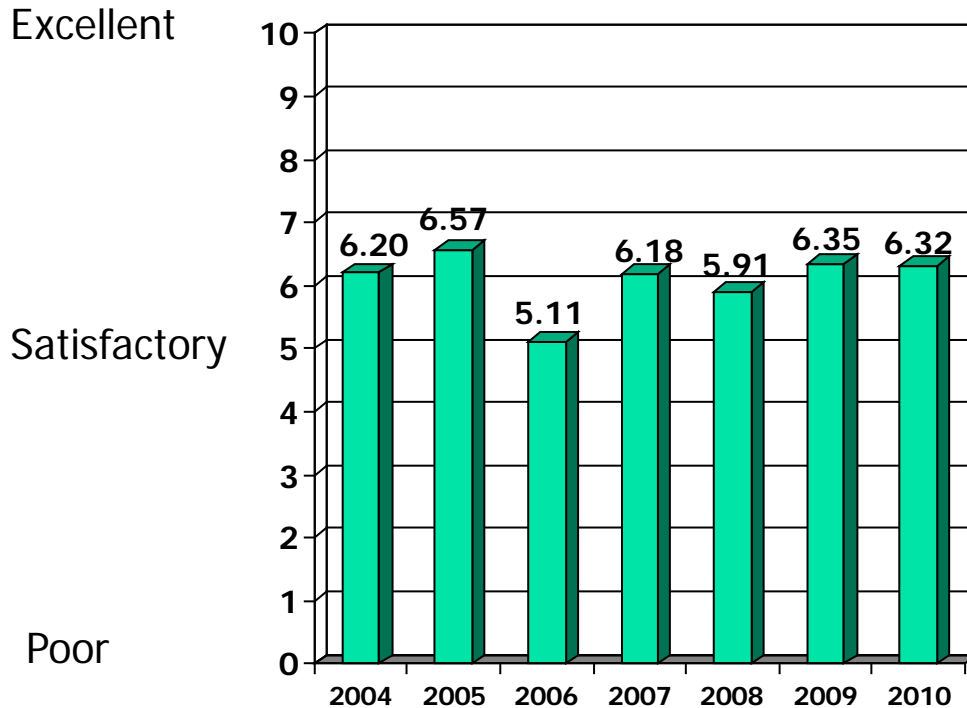
At September 30, 2010, the FSM National Government's General Fund had a ratio of cash and cash equivalents to current liabilities of to 89 cents to 1. This indicates that the FSM National Government had nearly 1 times the amount of cash and cash equivalents available to pay current liabilities, and is considered very close to a satisfactory financial liquidity ratio, and represents a slight increase from the ratio of the prior period.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
.96	.89	1.15	1.18	1.11	0.91	.81	.89		



# Performer<sup>®</sup> Reading

Overall Reading



The 2010 reading of 6.32 indicates the evaluator's opinion that the FSM National Government's overall financial health and performance remained steady over the past period, and continues to be considered above satisfactory.

The FSM's increase in net assets, unrestricted net assets level, excellent intergenerational equity, General Fund unreserved fund balance, capital asset remaining useful lives, and low tax and debt burdens per capita are the significant factors in the above satisfactory reading of the current period.



# What is the A.F.T.E.R. Analysis?

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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. FSM NATIONAL

	2005	2006	2007	2008	2009	2010
Number of F.S. Opinion Qualifications/Exceptions	6	6	8	10	0	0
Number of Major Federal Program Qualifications/Exceptions	6	7	4	4	3	4
Number of F.S. Findings						
A. Internal Control and Compliance	0	5	0	0	0	0
B. Internal Control Only	21	6	12	3	4	3
C. Compliance Only	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	21	11	13	3	4	3
Percentage of Findings Repeated	19%	45.5%	36%	0%	25%	100%
Number of A-133 Findings						
A. Internal Control and Compliance	20	16	14	15	20	12
B. Internal Control Only	0	0	0	0	0	0
C. Compliance Only	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	20	17	14	15	20	12
Percentage of A-133 Findings Repeated	5%	0%	0%	0%	70%	58%
Number of months Y/E the F.S. were Released	12	10	9	9	9	9
Number of Qualifications/Exceptions Related to C.U.	2	2	2	6	0	0
\$ of Questioned Costs-Current Year	\$1,914,909	\$1,622,274	\$4,139,445	\$2,372,041	\$2,964,400	\$2,049,222
\$ of Questioned Costs- Cumulative	\$5,698,476	\$4,639,055	\$6,832,415	\$7,115,095	\$6,079,078	\$6,106,882
\$ of Questioned Costs Resolved – Current Year	\$0	\$2,681,695	\$1,946,085	\$2,095,841	\$3,993,937	\$2,021,418



# Thank You

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- We would like to commend and thank the FSM National Government'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 the FSM National Government's annual financial report.
- Visit our website at [www.crawfordcpas.com](http://www.crawfordcpas.com) for other useful tools for governments.