



# *FEDERATED STATES OF MICRONESIA - NATIONAL FISCAL YEAR 2018*

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 Territory of the Federated States of Micronesia as of and for the Year Ended September 30, 2018



This presentation is available online at <http://www.pitiviti.org>

# *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 0-10
- The overall reading is a barometer of the FSM National Government's financial health and performance

# *HOW TO USE THE PERFORMETER®*

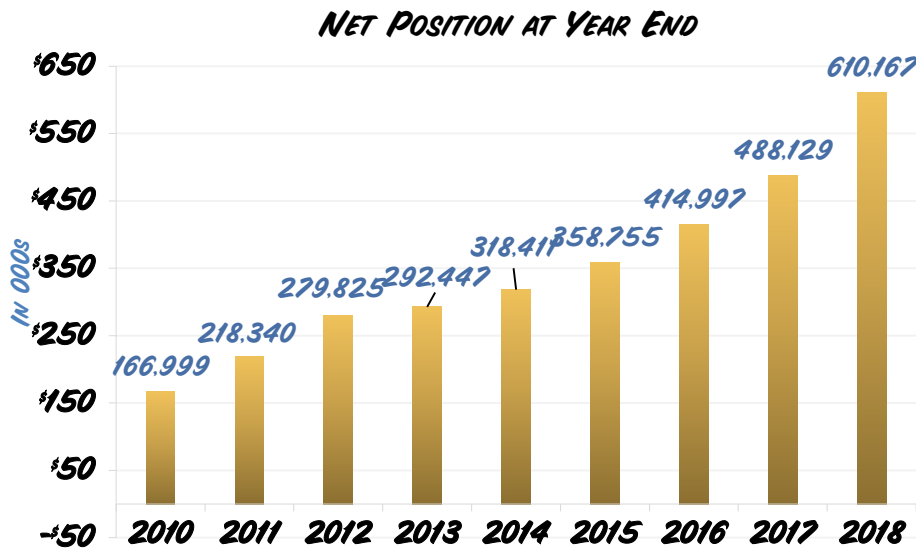
- Use the individual ratios to identify financial warning signals
- Use the overall rating as a collective benchmark of financial health and success of the FSM National Government as a whole
- Use the comparisons to prior years to monitor trends in financial indicators

# ***LIMITATIONS OF THE PERFORMETER®***

- The Performer® should not be used as the only source of financial information to evaluate 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 POSITION

*DID OUR OVERALL FINANCIAL CONDITION IMPROVE, DECLINE OR REMAIN STEADY OVER THE PAST YEAR?*



Net position includes all assets, deferred outflows, liabilities and deferred inflows of the FSM National Government, excluding discretely presented component units. It is measured as the difference between total assets, including capital assets, plus deferred outflows, and total liabilities, including long-term debt, plus deferred inflows.

For the year ended September 30, 2018, total net position increased by \$122 million or 25% from the prior year, and represents 11 consecutive years of improvements in this ratio.

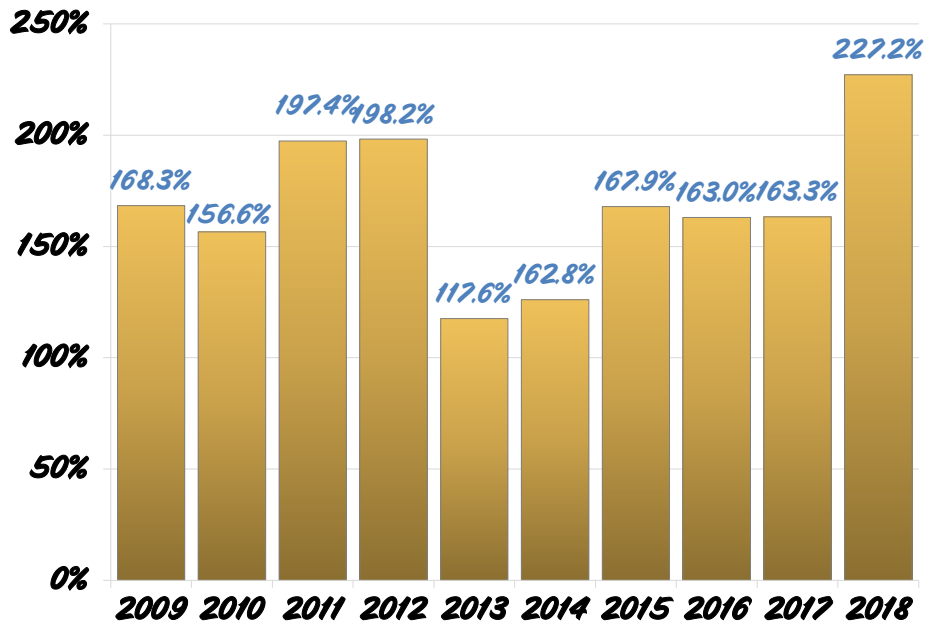
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
45.6%	32.6%	30.7%	28.2%	4.5%	8.9%	12.7%	15.0%	17.6%	25.0%



# 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, 2018, the FSM National Government funded 227.2% of their expenses with current year revenues, which is considered an excellent ratio, and it represents a significant increase in the ratio from the prior year.

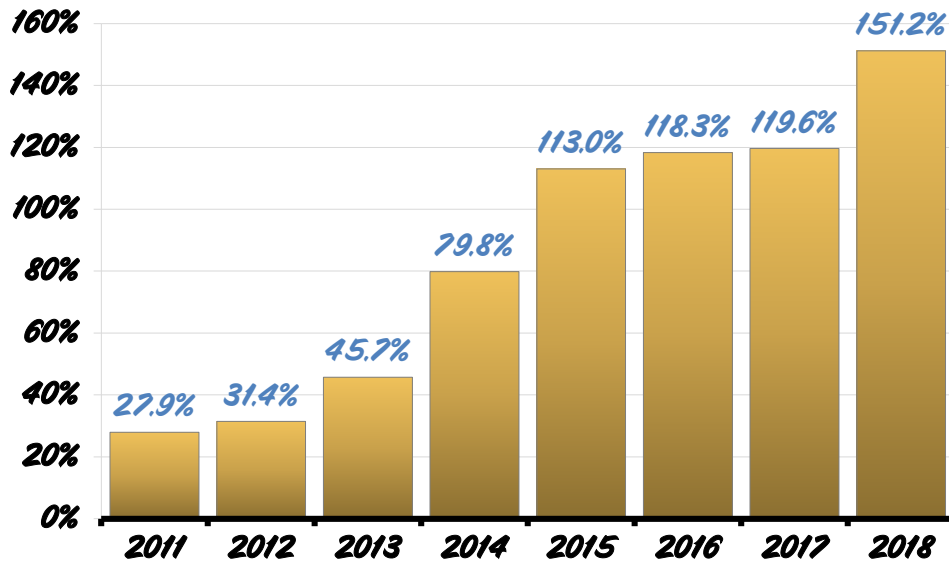
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
168.3%	156.6%	197.4%	198.2%	117.6%	126.0%	167.9%	162.8%	163.3%	227.2%



# LEVEL OF UNRESTRICTED NET POSITION

## HOW DO OUR TOTAL RAINY DAY FUNDS LOOK?

UNRESTRICTED NET POSITION AS A % OF ANNUAL REVENUES



The level of total unrestricted net position 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 unexpected needs.

For the year ended September 30, 2018, the FSM National Government's total unrestricted net position approximated 151% of annual total revenues. This is considered an excellent ratio and is also a significant improvement from the ratio reported in the prior period.

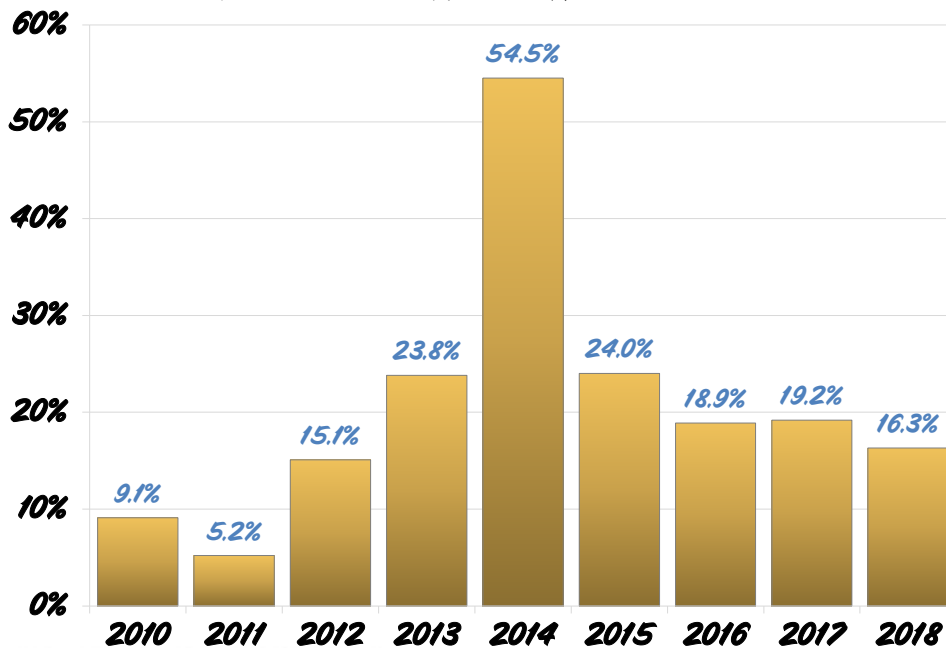
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
18.6%	17.3%	27.9%	31.4%	45.7%	79.8%	113.1%	118.3%	119.6%	151.2%



# LEVEL OF UNASSIGNED FUND BALANCE

## HOW DOES OUR CARRYOVER LOOK?

UNASSIGNED FUND BALANCE AS A PERCENTAGE OF ANNUAL REVENUES



The level of unassigned 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 emergencies, shortfalls or other unexpected needs. In this analysis, only the General Fund is considered.

For the year ended September 30, 2018, the FSM National Government's unassigned fund balance of the General Fund was approximately 16% of annual revenues. This is considered to be an above satisfactory indicator, but does represent a decrease in the ratio from the prior period.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
14.9%	9.1%	5.2%	15.1%	23.8%	54.5%	24.0%	18.9%	19.2%	16.3%

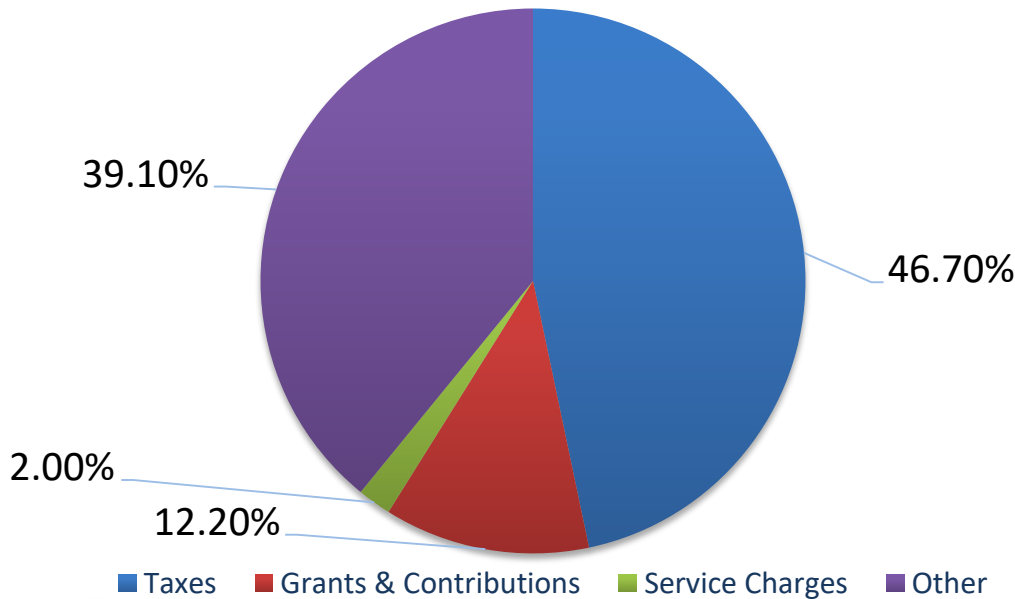




# REVENUE DISPERSION

*HOW HEAVILY ARE WE RELYING ON REVENUE SOURCES WE CAN'T DIRECTLY CONTROL?*

**2018 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 grants, the less favorable the dispersion.

For the year ended September 30, 2018, the FSM National Government had direct control over 48.1% of its revenues, including charges for services and some taxes. Fishing rights amounted to approximately \$72 million, and are included in the “other” revenue category. This ratio indicates the FSM National Government has exposure, as do most insular governments, to financial difficulties due to reliance on non-controlled revenue (51.9%).

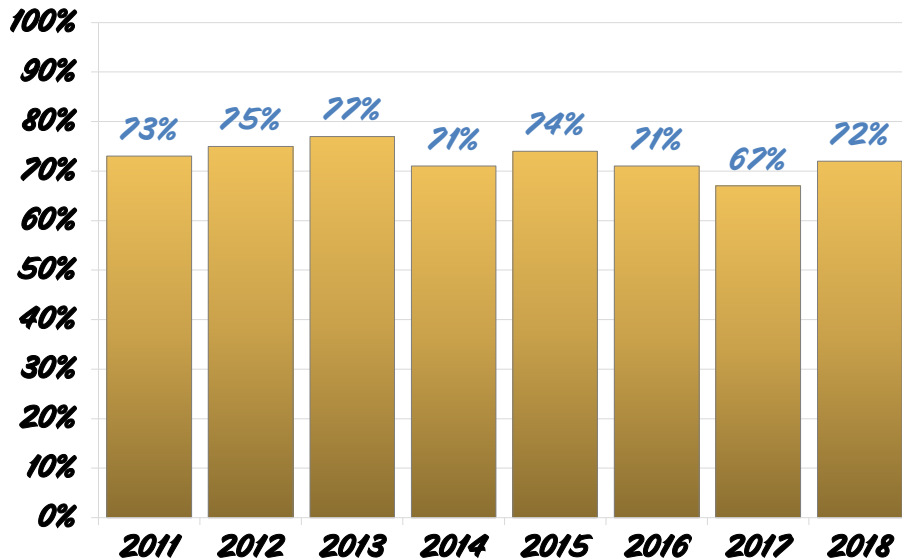
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
16%	16.3%	17.5%	15.7%	19.2%	35%	38.4%	16.1%	22.5%	48.1%



# 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 significant capital assets.

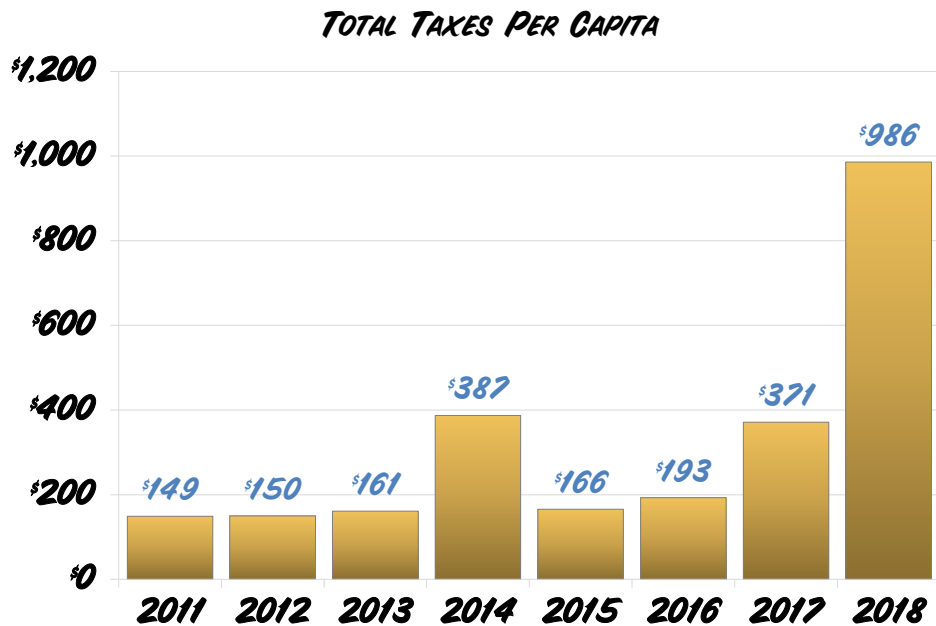
At September 30, 2018, the FSM National Government's depreciable capital assets amounted to \$327 million while accumulated depreciation totaled \$90.7 million. This indicates that, on the average, the FSM National Government's capital assets have 72% of their useful lives remaining. This is a well above satisfactory financial indicator, and represents an increase when compared to the ratio of the prior period.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
54%	62%	73%	75%	77%	71%	74%	71%	67%	72%



# 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 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, 2018, total taxes amounted to \$101 million or \$986 per capita. This indicates a favorable tax burden when compared to other insular governments, but represents a significant increase when compared to the ratio of the prior period. Included in the increase is a \$62 million spike in corporate income taxes.

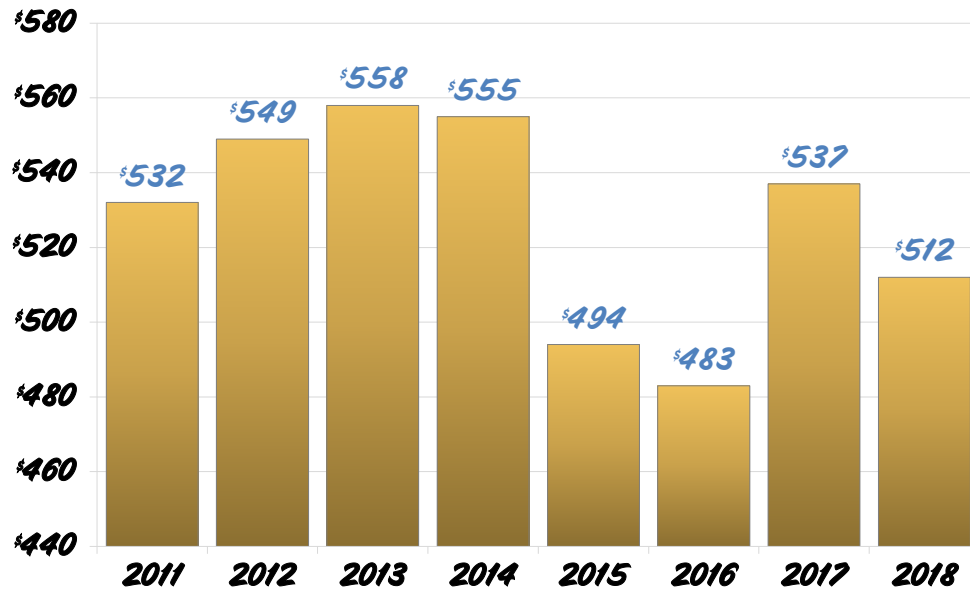
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$114	\$133	\$149	\$150	\$161	\$387	\$166	\$193	\$371	\$986



# 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. The ratio does not consider debt payable from enterprise activities or alternate revenues.

For the year ended September 30, 2018, the FSM National Government had \$52.5 million of long-term debt or \$512 per capita which is considered a low debt burden on its citizens when compared to other insular governments, and represents a decrease when compared to the ratio of the prior year.

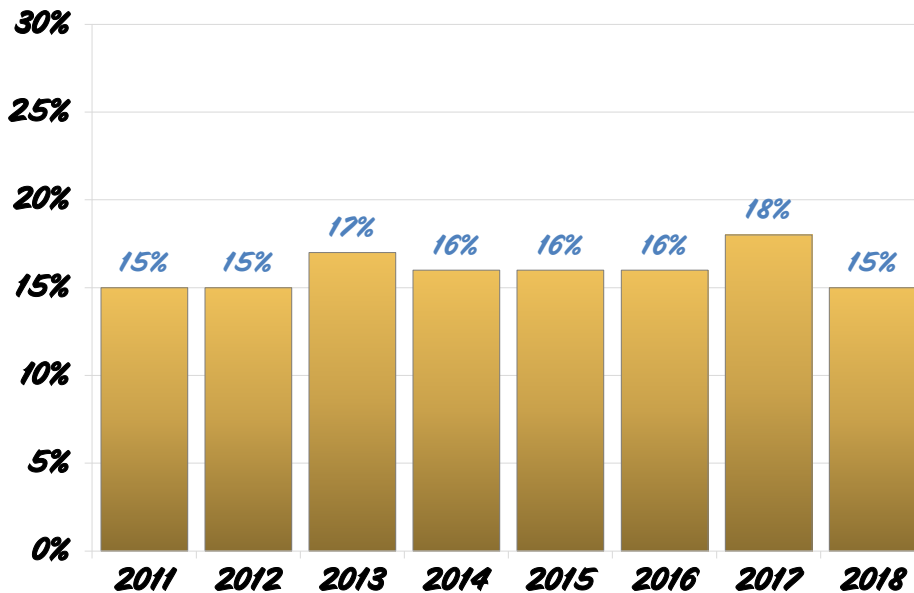
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$477	\$493	\$532	\$549	\$558	\$555	\$494	\$483	\$537	\$512



# PENSION PLAN FUNDING RATIO

*WILL WE BE ABLE TO PAY OUR EMPLOYEES WHEN THEY RETIRE?*

*PLAN NET POSITION AS A PERCENTAGE OF NET PENSION LIABILITY*



The pension funding ratio compares the pension plan trust fund's net position to the total pension liability for pension benefits earned to date. A percentage less than 100% indicates the plan is under-funded at the valuation date. Although the FSM actually offers a Social Security benefit, for the purposes of this analysis, we have treated it as a pension system.

At September 30, 2018, based upon the latest available actuarial information, the FSM's pension plan assets were 15% of the accrued pension benefit liability, indicating the plan was less than 1/6<sup>th</sup> funded at the last valuation date, and an indicator of potential long-term cash demands to fund the future needs of the plan. Also, it does represent a slight decline from the ratio of the prior year.

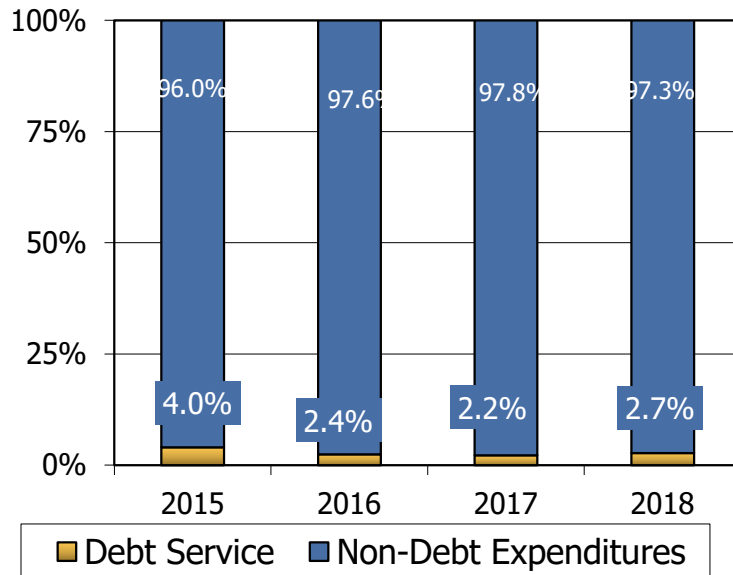
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
14%	14%	15%	15%	17%	16%	16%	16%	18%	15%



# DEBT SERVICE LOAD

HOW MUCH OF OUR ANNUAL NON-CAPITAL BUDGET IS LOADED WITH DISBURSEMENTS TO PAY OFF LONG-TERM DEBT

Percentage of Debt Service to Non-Debt Expenditures



The debt service load ratio measures the extent to which Palau's non-capital expenditures were comprised of debt service payments on long-term debt.

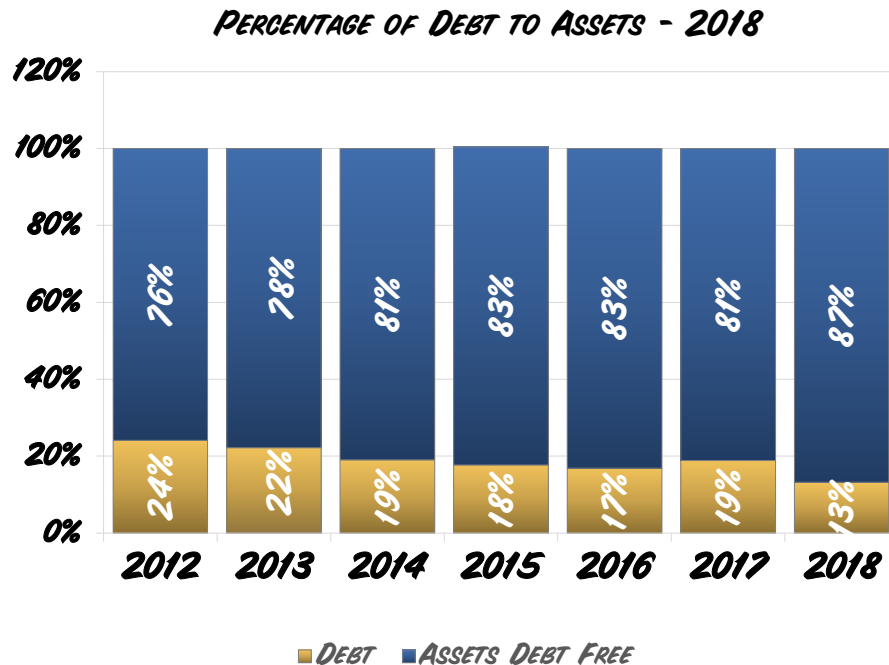
For the year ended September 30, 2018, FSM's total non-capital expenditures amounted to \$102.6 million, of which \$2.7 million (or 2.7%), were payments for principal and interest on long-term debt. In our model, this is considered an excellent ratio and indicates that for every dollar FSM spent on non-capital items, 2.7 cents of that dollar was used for debt service. Restatements for FY 2015 through FY 2017 have been made to this score and the overall score due to the impact of this ratio.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
N/A	N/A	N/A	N/A	N/A	N/A	4.0%	2.4%	2.2%	2.7%



# DEBT TO ASSETS

## WHO REALLY OWNS THE FSM NATIONAL GOVERNMENT?



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, 2018, 13.2% of the FSM National Government's \$703 million of total assets were funded with debt or other obligations. This is a near excellent financial indicator and indicates that for each dollar of assets the FSM National Government owns, it owes 13 cents of that dollar to others.

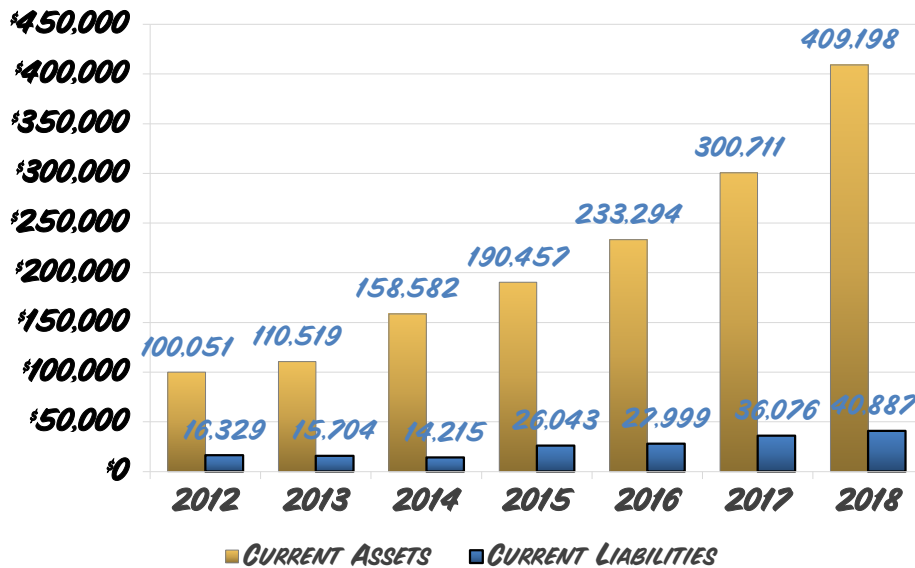
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
14%	14%	15%	15%	17%	16%	16%	16%	18%	13%



# 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, 2018, the FSM National Government General Fund had a ratio of current assets to current liabilities of 10.01 to 1. This indicates that the FSM National Government General Fund had more than ten times the amount of current assets to pay current liabilities. This is an excellent ratio, and an increase when compared to the ratio of the prior year.

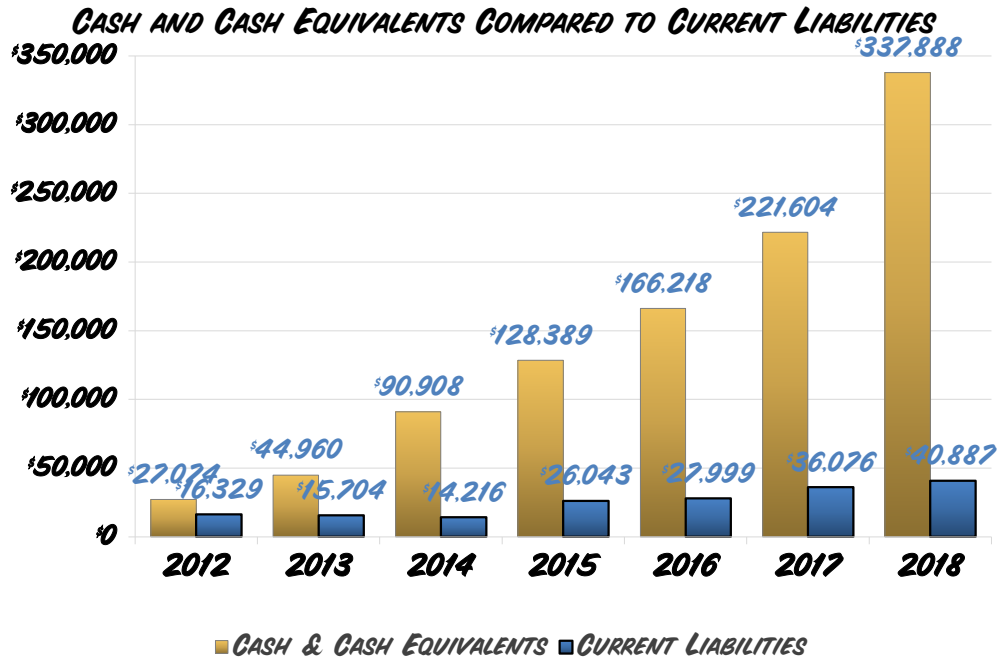
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2.26	2.45	6.47	6.13	7.04	11.20	7.31	8.33	8.34	10.01





# QUICK RATIO

## HOW IS OUR SHORT-TERM CASH POSITION?



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, less deferred revenue. 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, 2018, the FSM National Government’s General Fund had a ratio of cash and cash equivalents to current liabilities of 8.26 to 1. This indicates that the FSM National Government had over eight times the amount of cash and cash equivalents needed available to pay current liabilities, and is considered an excellent financial liquidity ratio, and an increase when compared to the ratio of the prior period.

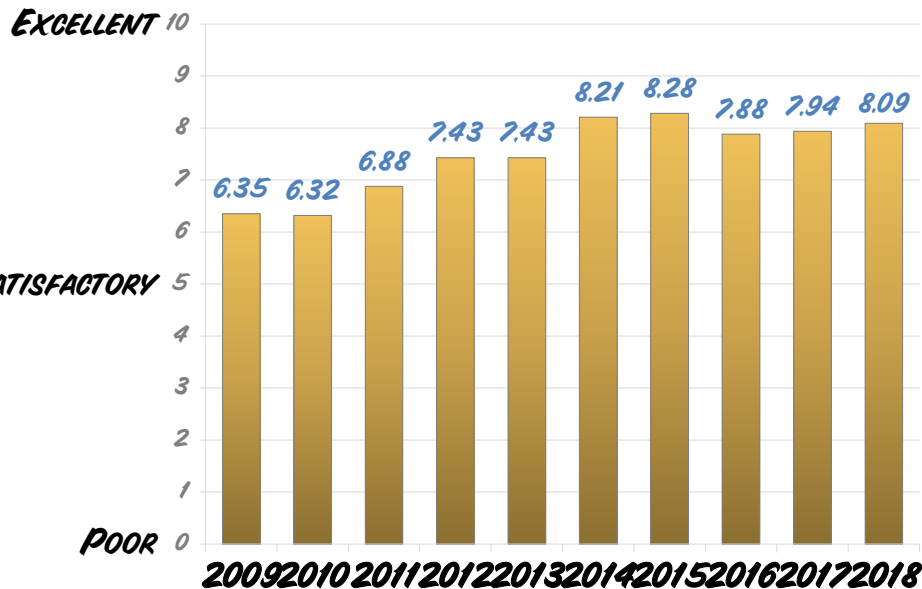
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
0.91	0.81	0.89	1.66	1.69	2.86	6.39	4.93	5.94	6.14	8.26



# PERFORMETER® READING

## HOW WAS OUR OVERALL FINANCIAL PERFORMANCE?

OVERALL READING



For the 2018 fiscal year, the readings by ratio category were as follows:

Financial Position	7.3
Financial Performance	10.0
Financial Capability	8.3

The 2018 reading of 8.09 indicates the evaluator's opinion that the Federated States of Micronesia Government's overall financial health and performance increased when compared to the prior period, and continues to be considered well above satisfactory.

The FSM National Government's continued consistency and improvements in unrestricted net position, debt to assets, debt per capita amounts, and high levels of current and quick ratios are the significant factors in the well above satisfactory reading of the current period.

**FY 18 OVERALL PERFORMETER® READING: 8.09**



<i>RATIO</i>	<i>FY 2013</i>	<i>FY 2014</i>	<i>FY 2015</i>	<i>FY 2016</i>	<i>FY 2017</i>	<i>FY 2018</i>
<i>CHANGE IN NET POSITION</i>	<i>4.5%</i>	<i>8.9%</i>	<i>12.7%</i>	<i>15%</i>	<i>17.6%</i>	<i>25%</i>
<i>INTERGENERATIONAL EQUITY</i>	<i>117.6%</i>	<i>126%</i>	<i>167.9%</i>	<i>162.8%</i>	<i>163.3%</i>	<i>227.2%</i>
<i>LEVEL OF UNRESTRICTED NET POSITION</i>	<i>45.7%</i>	<i>79.8%</i>	<i>113.1%</i>	<i>118.3%</i>	<i>119.6%</i>	<i>151.2%</i>
<i>LEVEL OF UNASSIGNED FUND BALANCE</i>	<i>23.8%</i>	<i>54.5%</i>	<i>24%</i>	<i>18.9%</i>	<i>19.2%</i>	<i>16.3%</i>
<i>REVENUE DISPERSION</i>	<i>19.2%</i>	<i>35%</i>	<i>38.4%</i>	<i>16.1%</i>	<i>22.5%</i>	<i>48.1%</i>
<i>CAPITAL ASSET CONDITION</i>	<i>77%</i>	<i>71%</i>	<i>74%</i>	<i>71%</i>	<i>67%</i>	<i>72%</i>
<i>FINANCING MARGIN - TAXES</i>	<i>\$161</i>	<i>\$387</i>	<i>\$166</i>	<i>\$193</i>	<i>\$371</i>	<i>\$986</i>
<i>FINANCING MARGIN - DEBT/OBLIGATIONS</i>	<i>\$558</i>	<i>\$555</i>	<i>\$494</i>	<i>\$483</i>	<i>\$537</i>	<i>\$512</i>
<i>PENSION PLAN FUNDING</i>	<i>15%</i>	<i>16%</i>	<i>16%</i>	<i>16%</i>	<i>18%</i>	<i>15%</i>
<i>DEBT SERVICE LOAD</i>	<i>N/A</i>	<i>N/A</i>	<i>4.0%</i>	<i>2.4%</i>	<i>2.2%</i>	<i>2.7%</i>
<i>DEBT TO ASSETS</i>	<i>22.2%</i>	<i>19%</i>	<i>17.7%</i>	<i>16.9%</i>	<i>18.9%</i>	<i>13.2%</i>
<i>CURRENT RATIO</i>	<i>7.04</i>	<i>11.16</i>	<i>7.31</i>	<i>8.33</i>	<i>8.34</i>	<i>10.01</i>
<i>QUICK RATIO</i>	<i>2.86</i>	<i>6.39</i>	<i>4.93</i>	<i>5.94</i>	<i>6.14</i>	<i>8.26</i>
<i>OVERALL PERFORMETER READING</i>	<i>7.43</i>	<i>8.21</i>	<i>8.28*</i>	<i>7.88*</i>	<i>7.94*</i>	<i>8.09</i>

*\*NOTES YEARS THAT THE OVERALL SCORE HAS BEEN RESTATED FOR COMPARISON PURPOSES*

## *PERFORMETER INDIVIDUAL RATIOS - SUMMARY AND COMPARISON TO PRIOR 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.

	2011	2012	2013	2014	2015	2016	2017	2018
Number of F.S. Opinion Qualifications/Exceptions	0	0	0	0	0	0	0	0
Number of Major Federal Program Qualifications/Exceptions	3	3	3	6	1	0	0	2
Number of F.S. Findings								
A. Internal Control and Compliance	0	0	0	0	0	0	0	0
B. Internal Control Only	2	2	1	1	1	1	0	0
C. Compliance Only	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	2	2	1	1	1	1	0	0
Percentage of Findings Repeated	50%	100%	100%	100%	100%	100%	0%	0%
Number of A-133 Findings								
A. Internal Control and Compliance	12	9	7	12	5	2	1	2
B. Internal Control Only	0	0	2	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>	<u>0</u>	<u>0</u>
TOTAL	12	9	9	12	5	2	1	2
Percentage of S.A. Findings Repeated	41.7%	77.7%	77.7%	16.7%	0%	50%	0%	0%
Number of months after Y/E the F.S. were Released	9	9	9	9	9	9	9	9
Number of Qualifications/Exceptions Related to C.U.	0	0	0	0	0	0	0	0
\$ of Questioned Costs-Current Year	\$301,014	\$709,783	\$2,665,578	\$580,807	\$28,936	\$0	\$0	\$0
\$ of Questioned Costs- Cumulative	\$5,211,836	\$3,060,019	\$3,642,795	\$4,223,602	\$4,257,599	\$27,391	\$27,391	\$0
\$ of Questioned Costs Resolved – Current Year	\$1,196,066	\$2,861,600	\$2,082,802	\$0	\$33,580	\$4,230,168	\$0	\$27,391

# THANK YOU!

- We would like to commend and thank the FSM National Government's management, the U.S. Department of the Interior and the Graduate School USA 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.
- This report is available online at <http://www.pitiviti.org>.
- Visit our website at <http://www.crawfordcpas.com> for other useful tools for governments.