



*THE COMMONWEALTH OF THE NORTHERN  
MARIANAS ISLANDS  
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 Commonwealth of the Northern Marianas Islands 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 CNMI's financial health and performance
- Due to certain accounting principle changes that have occurred in the last few years, the scores from FY 2015 forward have been recalculated using additional ratio calculations and a revised weighting system

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

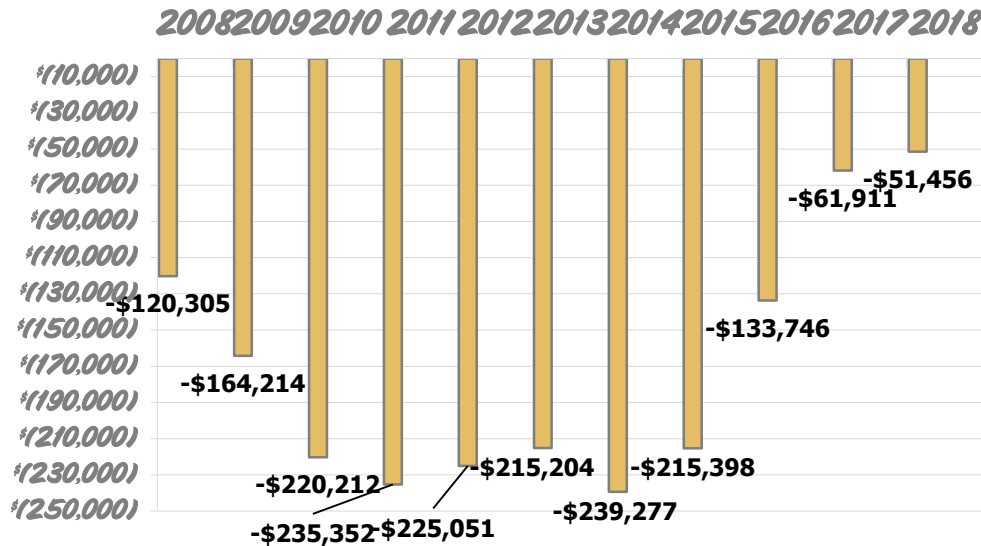
# ***LIMITATIONS OF THE PERFORMETER®***

- The Performer® should not be used as the only source of financial information to evaluate CNMI's performance and condition
- The analysis is an overall rating of CNMI 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 (DEFICIT) AT YEAR END**



Net position includes all assets, deferred outflows, liabilities and deferred inflows of the CNMI, except for fiduciary funds held for the benefit of others. 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, the CNMI's total net position (deficit) decreased, or improved, by \$10.5 million or 16.9% from the prior year. The CNMI primary government's overall net position (deficit) now stands at a net deficit of \$51.5 million, an improvement in shrinking down the size of the overall net position deficit by earning revenue in excess of expenses incurred for the year.

\* NOTES A YEAR IN WHICH BEGINNING NET POSITION WAS RESTATED

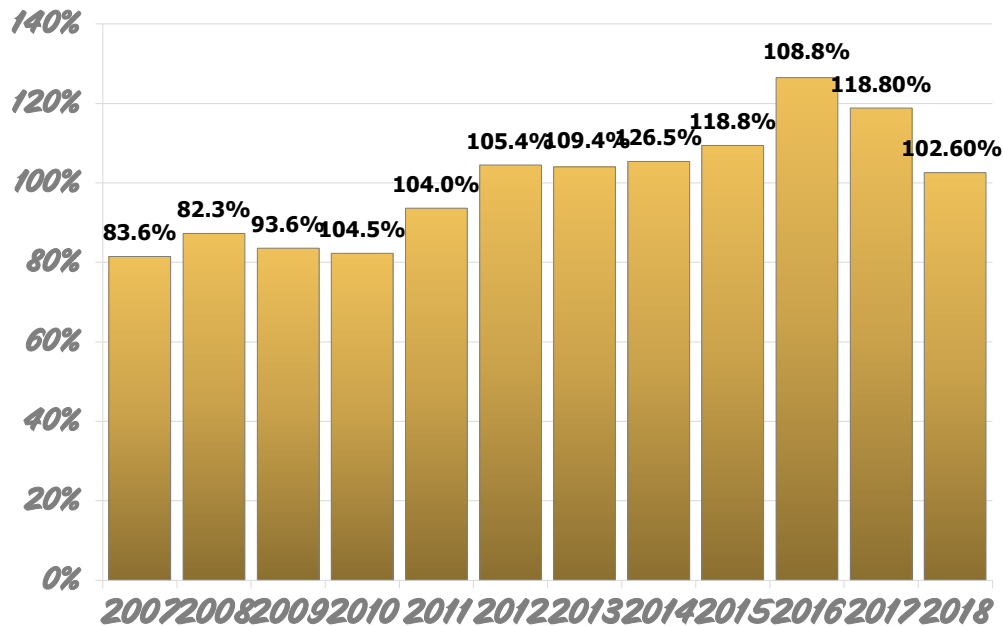
2009	2010	2011	2012*	2013*	2014	2015	2016*	2017	2018
-36.5%	-34.1%	-6.9%	+4.4%	+4.2%	-11.2%	+10.0%	+37.4%	+53.7%	+16.9%



# 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 CNMI funded 102.6% of their expenses with current year revenues, which is considered an excellent ratio, although a slight decrease in the ratio from the prior year.

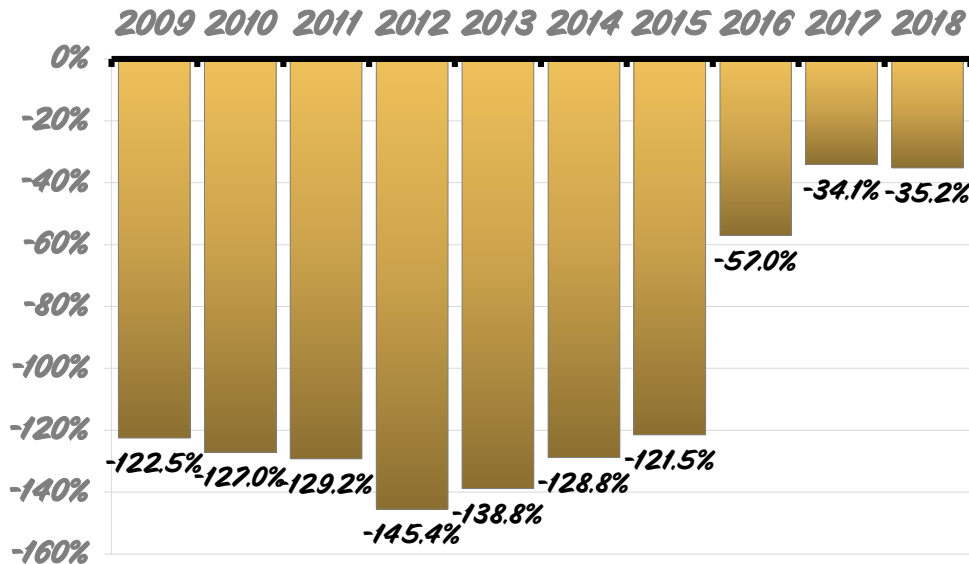
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
83.6%	82.3%	93.6%	104.5%	104.0%	105.4%	109.4%	126.5%	118.8%	102.6%



# LEVEL OF UNRESTRICTED NET POSITION

## HOW DO OUR TOTAL RAINY DAY FUNDS LOOK?

UNRESTRICTED NET POSITION (DEFICIT) AS A % OF ANNUAL REVENUES



The level of total unrestricted net position is an indication of the amount of unexpended and available resources CNMI has at a point in time to fund emergencies, shortfalls or unexpected needs.

For the year ended September 30, 2018, the CNMI's total unrestricted net position was in a deficit position that approximated 35.2% of annual total revenues, which amounts to \$144 million. This represents a slight decline in the ratio when compared to the ratio of the prior year and pauses a 5 year trend of improvement.

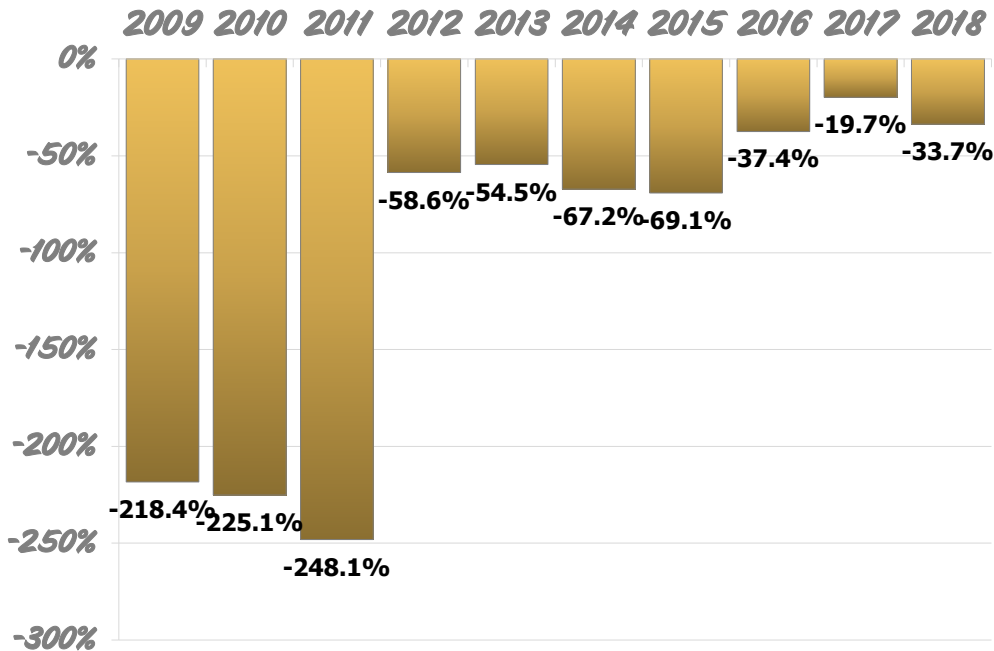
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-122.5%	-127%	-129.2%	-145.4%	-138.8%	-128.8%	-121.5%	-57.0%	-34.1%	-35.2%



# LEVEL OF UNASSIGNED FUND BALANCE

## HOW DOES OUR CARRYOVER LOOK?

UNASSIGNED FUND BALANCE (DEFICIT) AS A PERCENTAGE OF ANNUAL REVENUES



The level of budgetary unassigned fund balance is an indication of the amount of unexpended, unencumbered and available resources the CNMI 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, 2018, the CNMI's unassigned fund balance (deficit) of the General Fund (plus any unassigned fund balance of other governmental funds that have an unassigned fund balance deficit) was a deficit of \$80 million, or the equivalent of 33.7% of General Fund revenues, which represents an increase in the size of the deficit-to-revenue ratio from the prior year.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-218.4%	-225.1%	-248.1%	-58.6%	-54.5%	-67.2%	-69.1%	-37.4%	-19.7%	-33.7%

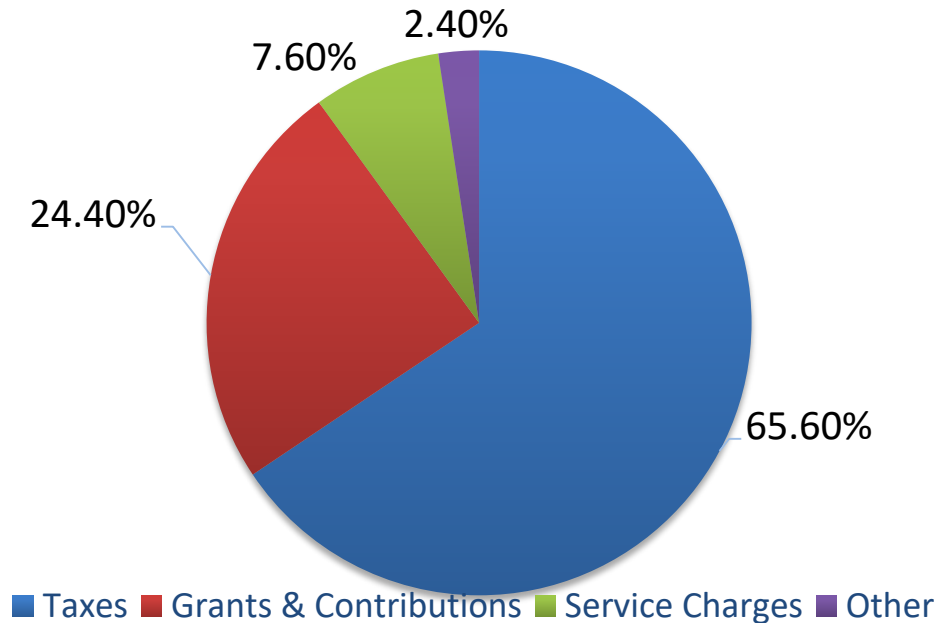




# REVENUE DISPERSION

*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 CNMI is on certain types of revenue. The more dependent the CNMI is on revenue sources beyond its direct control, such as grants, the less favorable the dispersion.

For the year ended September 30, 2018, the CNMI had direct control over 73.3% of its revenues (taxes and charges for services). This ratio indicates the CNMI has some limited exposure, as do most insular governments, to financial difficulties due to reliance on non-controlled revenue (26.7%).

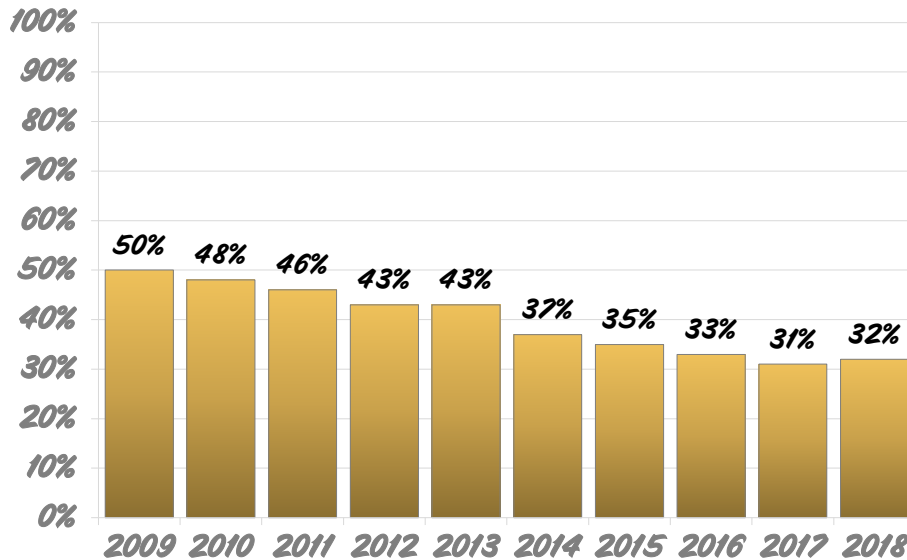
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
67.5%	59.6%	54.9%	58.5%	62.1%	72%	68.4%	70.5%	73.2%	73.3%



# CAPITAL ASSET CONDITION

## HOW MUCH USEFUL LIFE DO WE HAVE LEFT IN OUR CAPITAL ASSETS?

PERCENTAGE OF CAPITAL ASSETS' USEFUL LIFE REMAINING - 2018



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 CNMI's depreciable capital assets amounted to \$344 million while accumulated depreciation totaled \$233 million. This indicates that, on average, the CNMI's capital assets have 32% of their useful lives remaining. This is considered a below satisfactory financial indicator, but does represent a slight improvement from the ratio of prior period, and stops a multi-year downward trend.

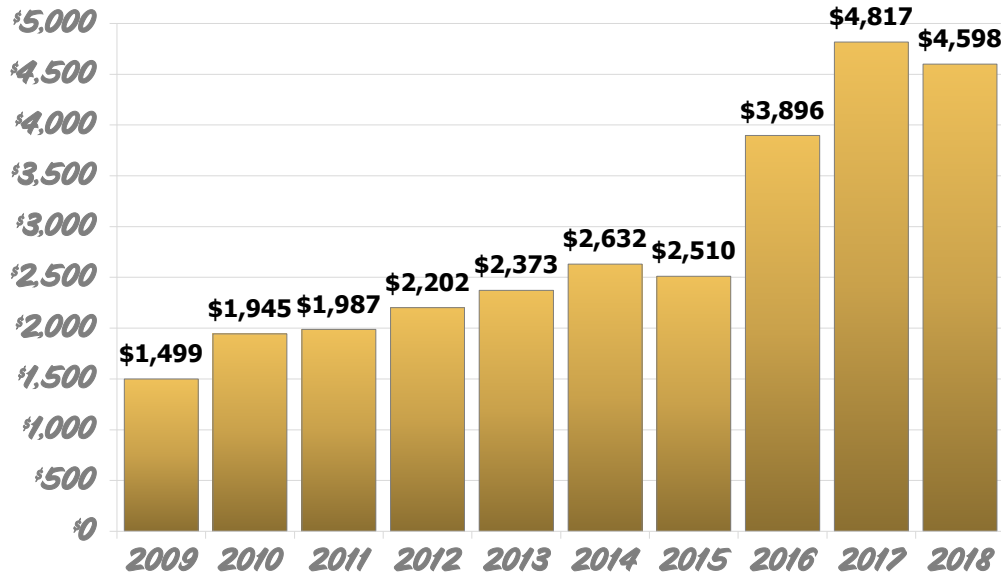
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
50%	48%	46%	43%	43%	37%	35%	33%	31%	32%



# 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 the CNMI's tax burden on its citizens and other taxpayers. The ratio includes business gross receipts and most taxes (hotel taxes are excluded).

For the year ended September 30, 2018, total taxes referred to above amounted to \$248 million or \$4,598 per capita. This indicates a relatively high tax burden when compared to other insular governments, but represents a decrease when compared to the ratio of the prior period.

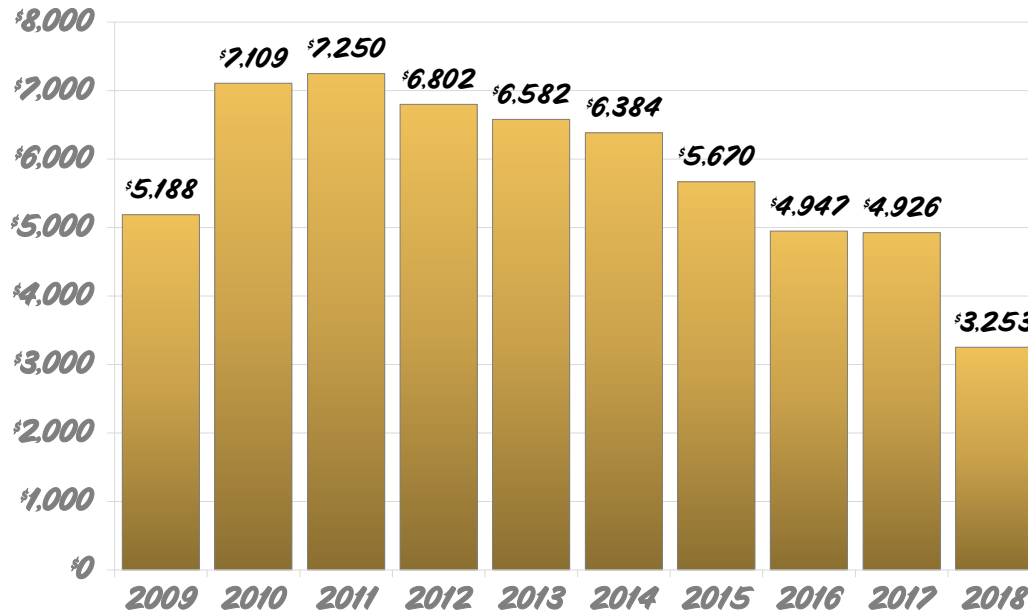
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$1,499	\$1,945	\$1,987	\$2,202	\$2,373	\$2,632	\$2,510	\$3,896	\$4,817	\$4,598



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

For the year ended September 30, 2018, the CNMI had \$175 million of long-term debt, or \$3,253 per capita which is a relatively moderate debt burden on its citizens when compared to other insular governments, and represents a decrease in the ratio of debt per capita from the prior year, reflecting a significant improvement in this ratio.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$5,188	\$7,109	\$7,250	\$6,802	\$6,582	\$6,384	\$5,670	\$4,947	\$4,926	\$3,253

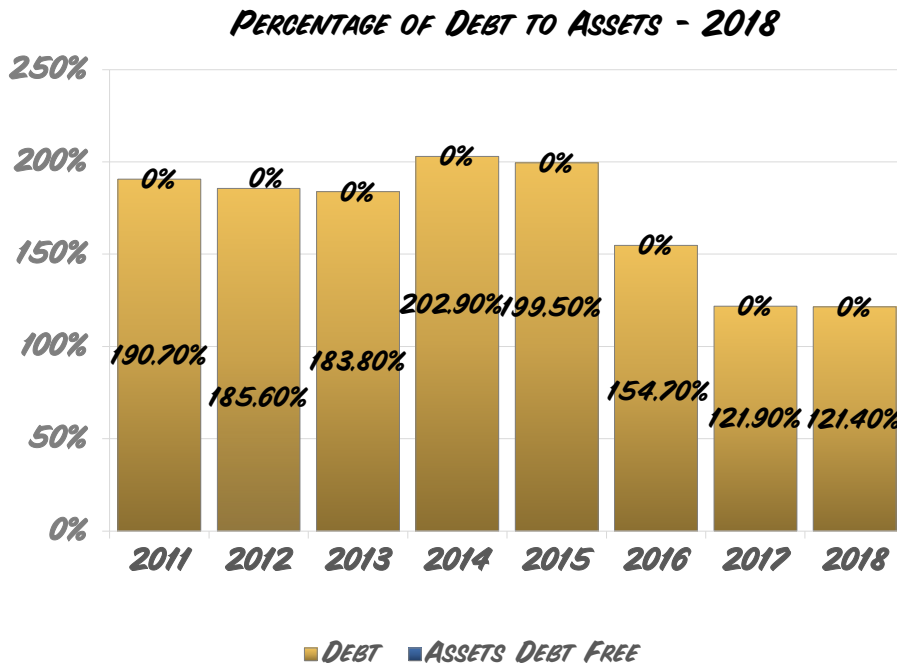


# DEBT TO ASSETS

## WHO REALLY OWNS THE CNMI?

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

At September 30, 2018, approximately 121.4% of the CNMI's \$263 million of total assets were funded with debt or other obligations. This is an unsatisfactory financial indicator and shows no assets of the CNMI that are debt-free. For example, for every \$1.00 of assets the CNMI owns, it owes approximately \$1.21 to others. However, this ratio does represent a slight improvement from the debt-to-assets ratio of the prior period, and continues a improving 4 year trend.



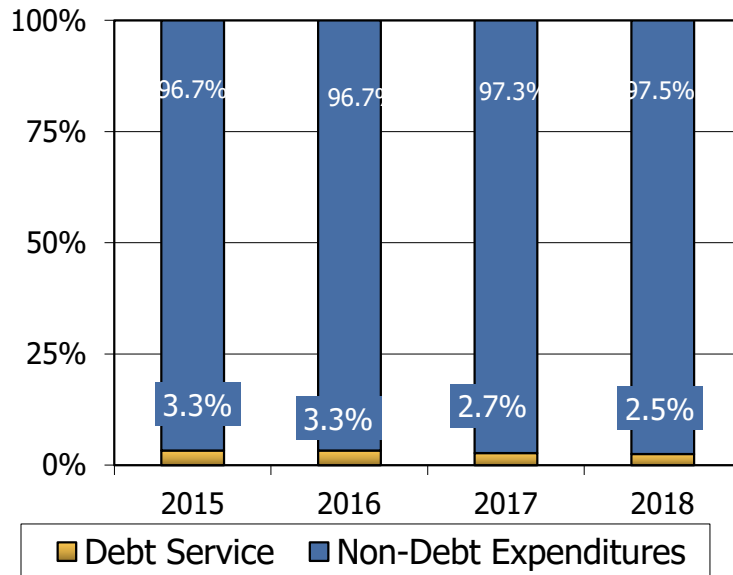
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
158.6%	182.6%	190.7%	185.6%	183.8%	202.9%	199.5%	154.7%	121.9%	121.4%



# 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 the CNMI's non-capital expenditures were comprised of debt service payments on long-term debt.

For the year ended September 30, 2018, the CNMI's total non-capital expenditures amounted to \$434.5 million, of which \$10.6 million (or 2.4%), were payments for principal and interest on long-term debt. In our model, this is considered an ratio and indicates that for every dollar the CNMI spent on non-capital items, 2.4 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.

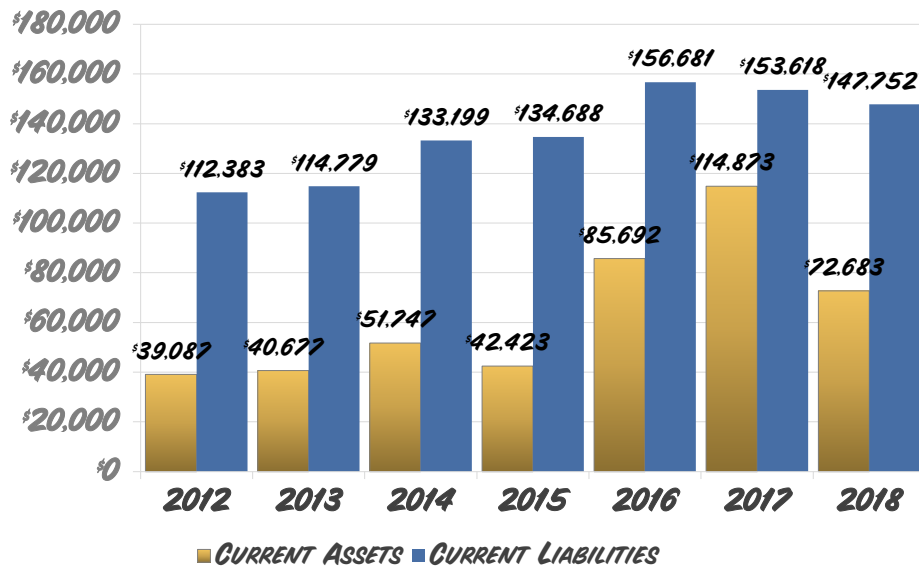
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
N/A	N/A	N/A	N/A	N/A	N/A	3.3%	3.3%	2.7%	2.4%



# 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 CNMI’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 includes only the General Fund (CNMI’s primary operating fund).

At September 30, 2018, the CNMI had a General Fund ratio of current assets to current liabilities of \$0.49 to 1. This indicates that the CNMI General Fund has, for each dollar of current liabilities, 49 cents of current assets to fund them. This ratio represents a decrease when compared to the ratio of the most recent past period, and is considered unfavorable.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
0.57	0.34	0.33	0.35	0.35	0.39	0.31	0.55	0.75	0.49

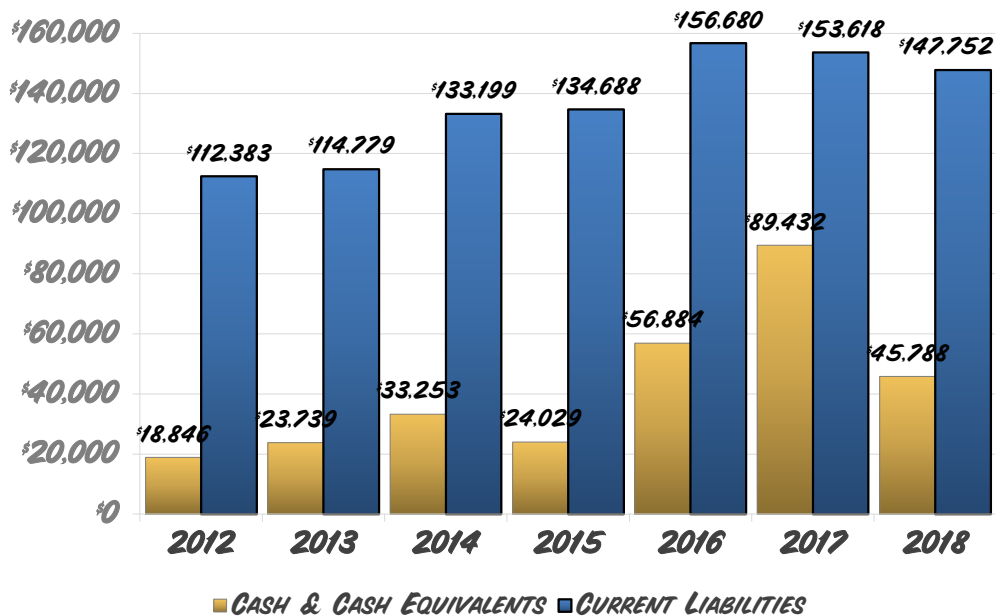




# QUICK RATIO

## HOW IS OUR SHORT-TERM CASH POSITION?

**CASH AND CASH EQUIVALENTS COMPARED TO CURRENT LIABILITIES - 2018**



The quick ratio is another, more conservative, measure of the CNMI'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 measure looks only at the CNMI General Fund, the main operating fund of the CNMI.

At September 30, 2018, the CNMI had a ratio of cash and cash equivalents to current liabilities of \$0.31 to 1. This indicates that the CNMI General Fund had, for every one dollar of current liabilities, 31 cents of cash and cash equivalents to fund them. This ratio represents a decline when compared with the ratio of the immediate past period.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
0.24	0.12	0.16	0.17	0.21	0.25	0.18	0.36	0.58	0.31





# PERFORMETER® READING

## HOW WAS OUR OVERALL FINANCIAL PERFORMANCE?

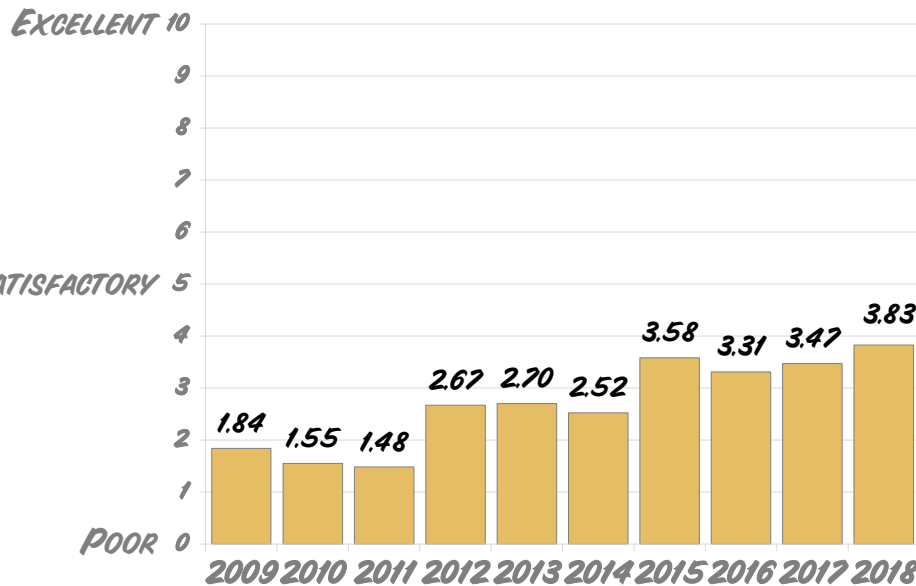
For the 2018 fiscal year, the readings by ratio category were as follows:

Financial Position	0.3
Financial Performance	10.0
Financial Capability	4.8

The 2018 reading of 3.83 indicates the evaluator's opinion that the Commonwealth of the Northern Marianas Islands Government's overall financial health and performance showed consistent improvement with the prior period, although the reading continues to remain below satisfactory as of and for the fiscal year ended September 30, 2018.

The Commonwealth's performances are slowly reversing several years of less than satisfactory health and performance. However, continued excellent annual financial performances will still necessary to completely reverse the poor financial position that the CNMI has found itself in over the past decade.

OVERALL READING



**FY 18 OVERALL PERFORMETER® READING: 3.83**



<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>4.2%</i>	<i>-11.2%</i>	<i>10%</i>	<i>37.4%</i>	<i>53.7%</i>	<i>16.9%</i>
<i>INTERGENERATIONAL EQUITY</i>	<i>104.0%</i>	<i>105.4%</i>	<i>109.4%</i>	<i>126.5%</i>	<i>118.8%</i>	<i>102.6%</i>
<i>LEVEL OF UNRESTRICTED NET POSITION</i>	<i>-138.8%</i>	<i>-128.8%</i>	<i>-121.5%</i>	<i>-57.0%</i>	<i>-34.1%</i>	<i>-35.2%</i>
<i>LEVEL OF UNASSIGNED FUND BALANCE</i>	<i>-54.5%</i>	<i>-67.2%</i>	<i>-69.1%</i>	<i>-37.4%</i>	<i>-19.7%</i>	<i>-33.7%</i>
<i>REVENUE DISPERSION</i>	<i>62.1%</i>	<i>72%</i>	<i>68.4%</i>	<i>70.5%</i>	<i>73.2%</i>	<i>73.2%</i>
<i>CAPITAL ASSET CONDITION</i>	<i>43%</i>	<i>37%</i>	<i>35%</i>	<i>33%</i>	<i>31%</i>	<i>32%</i>
<i>FINANCING MARGIN - TAXES</i>	<i>\$2.373</i>	<i>\$2.632</i>	<i>\$2.510</i>	<i>\$3.896</i>	<i>\$4.817</i>	<i>\$4.598</i>
<i>FINANCING MARGIN - DEBT</i>	<i>\$6.582</i>	<i>\$6.384</i>	<i>\$5.670</i>	<i>\$4.947</i>	<i>\$4.926</i>	<i>\$3.253</i>
<i>DEBT TO ASSETS</i>	<i>183.8%</i>	<i>202.9%</i>	<i>199.5%</i>	<i>154.7%</i>	<i>121.9%</i>	<i>121.4%</i>
<i>DEBT SERVICE LOAD</i>	<i>NOT USED</i>	<i>NOT USED</i>	<i>3.3%</i>	<i>3.3%</i>	<i>2.7%</i>	<i>2.4%</i>
<i>CURRENT RATIO</i>	<i>0.35</i>	<i>0.39</i>	<i>0.31</i>	<i>0.55</i>	<i>0.75</i>	<i>0.49</i>
<i>QUICK RATIO</i>	<i>0.21</i>	<i>0.25</i>	<i>0.18</i>	<i>0.36</i>	<i>0.58</i>	<i>0.31</i>
<i>PERFORMETER READING</i>	<i>2.70</i>	<i>2.52*</i>	<i>3.58*</i>	<i>3.31*</i>	<i>3.47*</i>	<i>3.83</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.

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of F.S. Opinion Qualifications/Exceptions	1	6	3	7	2	5	5	5	3
Number of Major Federal Program Qualifications/Exceptions	8	8	8	7	8	8	6	6	6
Number of F.S. Findings									
A. Internal Control and Compliance	0	0	2	2	2	1	0	0	0
B. Internal Control Only	15	19	18	11	13	12	12	14	14
C. Compliance Only	<u>1</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>
TOTAL	16	22	20	13	15	13	13	15	14
Percentage of Findings Repeated	100%	72.7%	72.7%	100%	60%	85%	92%	80%	93%
Number of Single Audit Findings									
A. Internal Control and Compliance	37	22	28	0	2	22	18	9	10
B. Internal Control Only	0	0	0	29	36	0	0	0	0
C. Compliance Only	<u>0</u>	<u>3</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>5</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	37	25	28	30	38	27	18	9	10
Percentage of S.A. Findings Repeated	100%	56%	56%	50%	39.5%	59%	61%	56%	55%
Number of months after Y/E the F.S. were Released	20	20	17	9	9	?	10	9	8
Number of Qualifications/Exceptions Related to C.U.	1	6	2	7	2	4	4	4	2
\$ of Questioned Costs-Current Year	\$5,483,038	\$4,223,661	\$6,620,692	\$10,288,891	\$3,754,204	\$3,200,953	\$16,067,272	\$1,393,892	\$369
\$ of Questioned Costs- Cumulative	\$24,714,864	\$28,938,525	\$35,559,217	\$45,848,108	\$26,187,584	\$17,114,454*	\$31,568,469	\$21,722,238	\$20,317,045
\$ of Questioned Costs Resolved – Current Year	\$0	\$0	\$0	\$0	\$23,414,727	\$55,526	\$1,613,257	\$11,240,123	\$1,405,562

# THANK YOU!

- We would like to commend and thank the CNMI'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 CNMI'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.