



CHUUK

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 Chuuk 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 Chuuk's financial health and performance

HOW TO USE THE PERFORMETER®

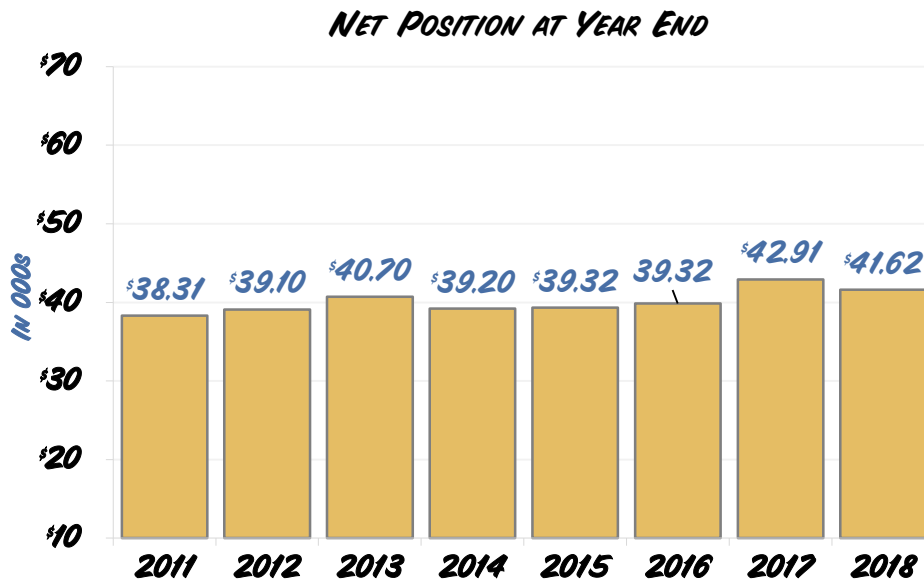
- Use the individual ratios to identify financial warning signals
- Use the overall rating as a collective benchmark of financial health and success of Chuuk as a whole
- Use the comparisons to prior years to monitor trends in financial indicators

LIMITATIONS OF THE PERFORMETER®

- The Performer® should not be used as the only source of financial information to evaluate Chuuk's performance and condition
- The analysis is an overall rating of Chuuk 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 of Chuuk. It is measured as the difference between total assets, including capital assets, plus deferred outflows, netted against total liabilities, including long-term debt, and deferred inflows.

For the year ended September 30, 2018, total net position decreased by \$1.3 million or 3% from the prior year. This represents a reversal of last year's increase in net position, and the first decrease in net position since FY 2014.

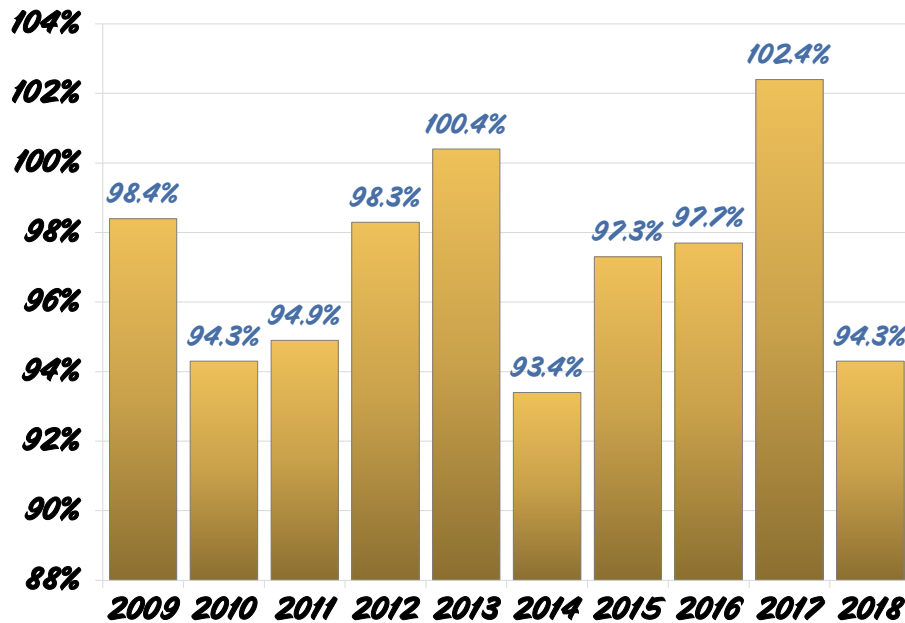
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-1.1%	-12.2%	-5.0%	2.1%	4.1%	-3.7%	0.3%	0.7%	7.6%	-3.0%



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, Chuuk funded 94.3% of their expenses with current year revenues, which is considered a slightly below satisfactory ratio, and represents a significant reversal from the increase of the ratio in the prior year.

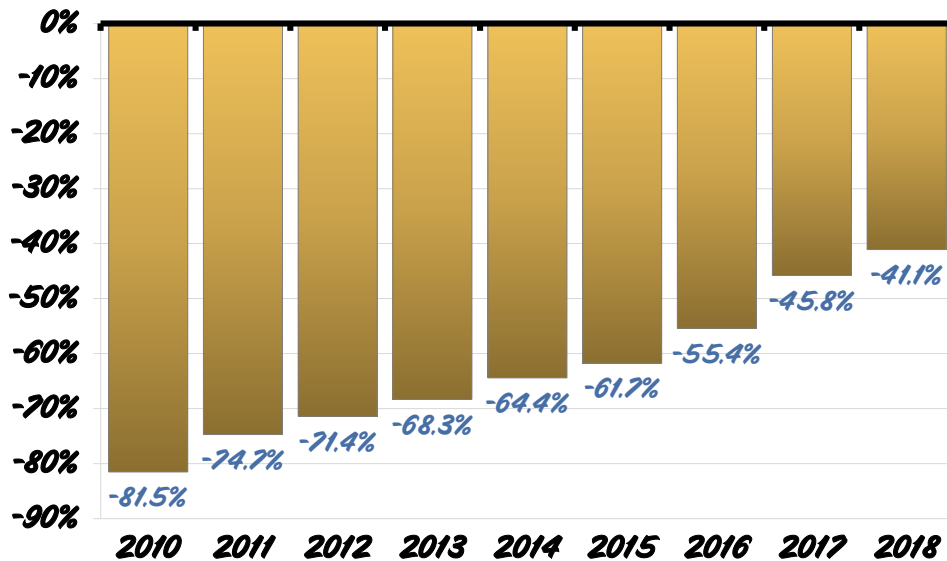
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
98.4%	94.3%	94.9%	98.3%	100.4%	93.4%	97.3%	97.7%	102.4%	94.3%



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 Chuuk has at a point in time to fund emergencies, shortfalls or unexpected needs.

For the year ended September 30, 2018, Chuuk's total unrestricted net position (deficit) was a deficit of \$16.6 million, which is equivalent to 41.1% of annual total revenues, and is typically considered an unsatisfactory financial indicator. However, the size of the deficit-to-revenue ratio has been reduced in each of the last 8 years.

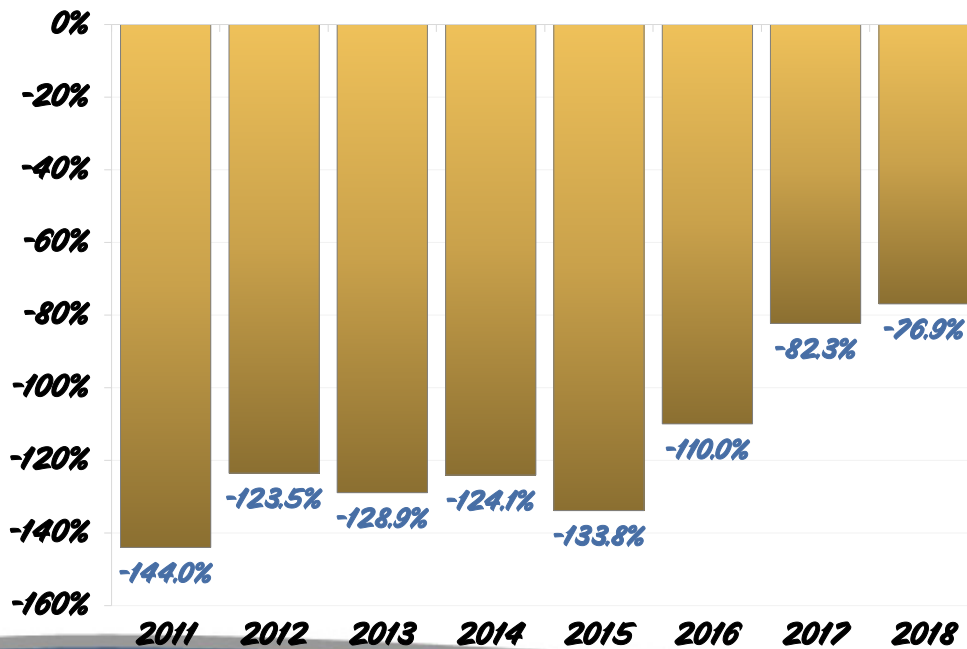
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-67.5%	-81.5%	-74.7%	-71.4%	-68.3%	-64.4%	-61.7%	-55.4%	-45.8%	-41.1%



LEVEL OF UNASSIGNED FUND BALANCE

HOW DOES OUR CARRYOVER LOOK?

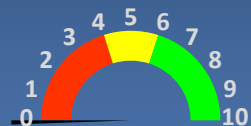
UNASSIGNED FUND BALANCE (DEFICIT) AS A PERCENTAGE OF ANNUAL REVENUES



The level of unassigned fund balance is an indication of the amount of unexpended, unencumbered and available resources Chuuk 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, Chuuk's unassigned fund balance (deficit) of the General Fund was a deficit of \$8.0 million, or the equivalent of 76.9% of General Fund revenues. This is considered an unfavorable ratio, but does represent the third consecutive year that Chuuk has been able to reduce the size of the deficit-to-revenue ratio in the General Fund.

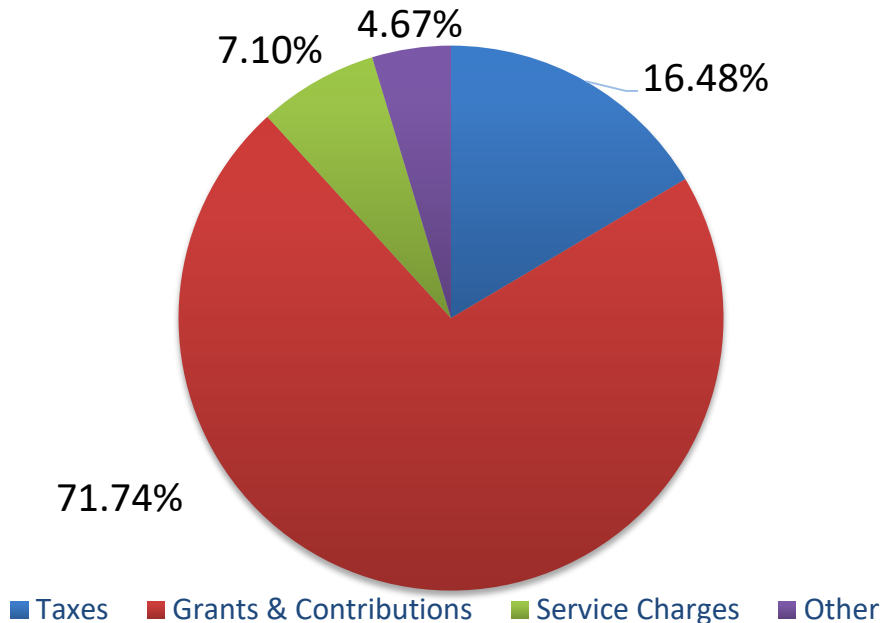
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-298.9%	-207.7%	-144.3%	-123.5%	-128.9%	-124.1%	-133.8%	-110.2%	-82.3%	-76.9%



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

For the year ended September 30, 2018, Chuuk had direct control over 13.2% of its revenues (Excise taxes and charges for services). This ratio indicates Chuuk has significant exposure, as do most insular governments, to financial difficulties due to reliance on non-controlled revenue (86.8%).

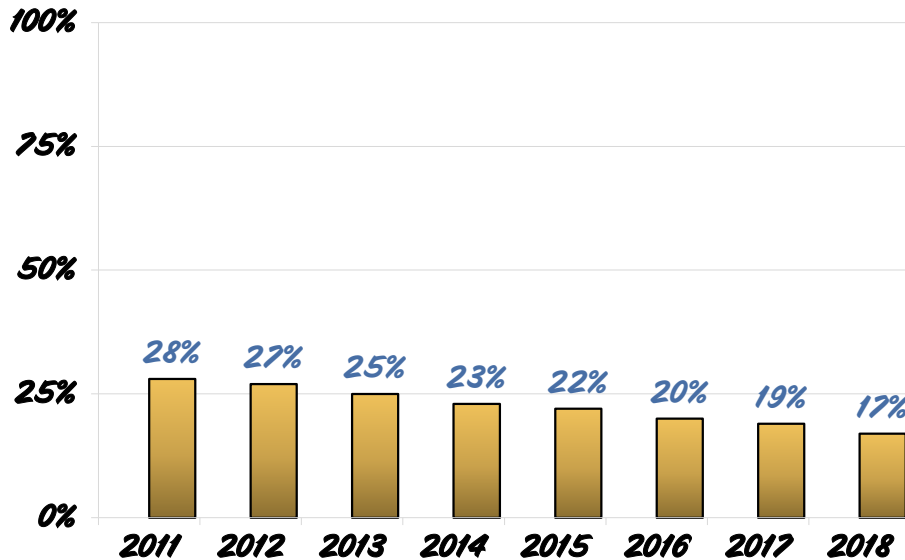
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
8.9%	10.2%	9.9%	12.3%	11.9%	11.3%	11.5%	12.0%	11.6%	13.2%



CAPITAL ASSET CONDITION

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

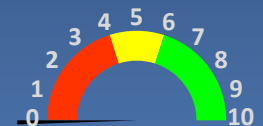
PERCENTAGE OF CAPITAL ASSETS' USEFUL LIFE REMAINING - 2018



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, Chuuk's depreciable capital assets amounted to \$106.7 million while accumulated depreciation totaled \$89 million. This indicates that, on the average, Chuuk's capital assets have 17% of their useful lives remaining. This is considered an unfavorable financial indicator, and continues a decline in the ratio in the 10 years presented below.

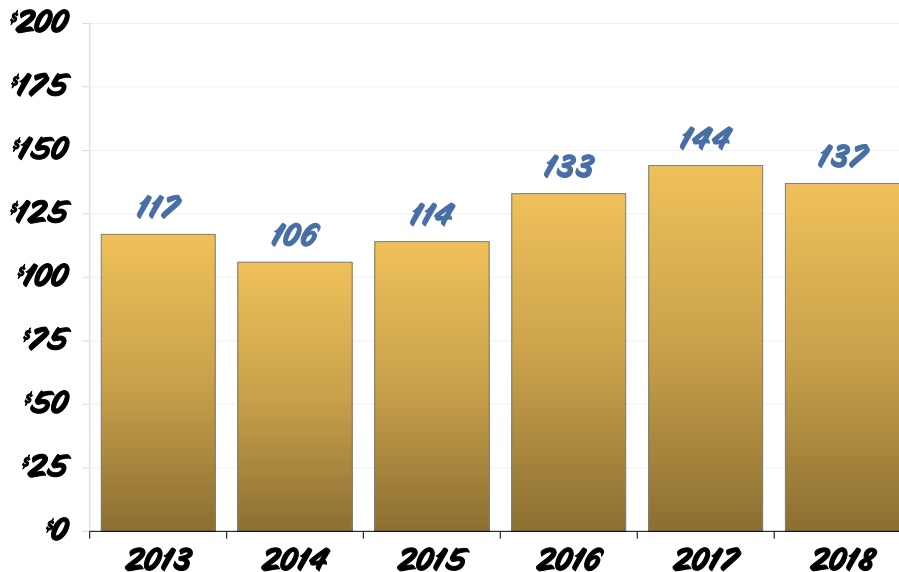
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
33%	31%	28%	27%	25%	23%	22%	20%	19%	17%



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 Chuuk'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 \$6.6 million or \$137 per capita. This indicates a very low tax burden when compared to other insular governments, and is considered an excellent ratio.

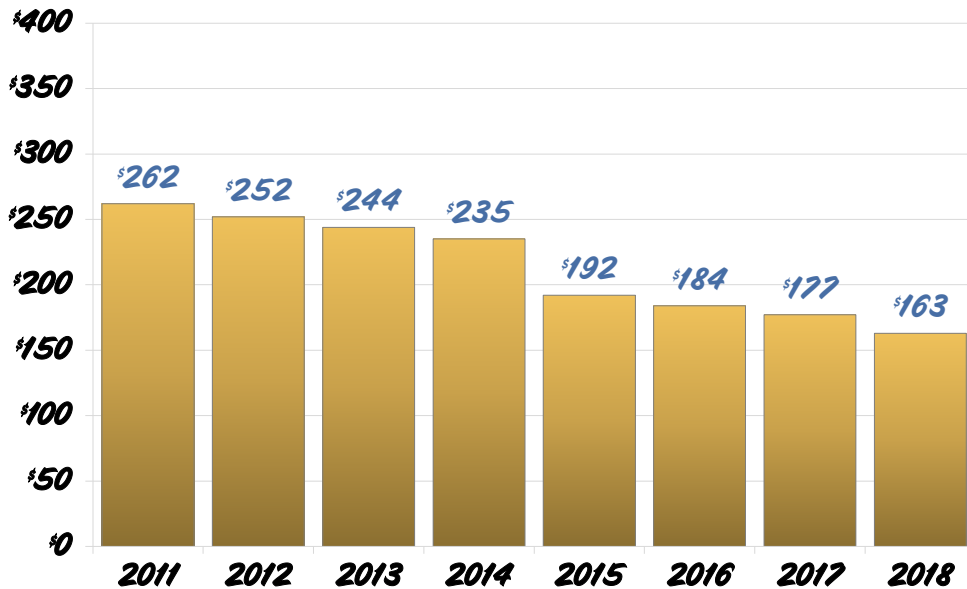
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$80	\$115	\$119	\$121	\$117	\$106	\$114	\$133	\$144	\$137



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 Chuuk's debt burden on its citizens and other taxpayers.

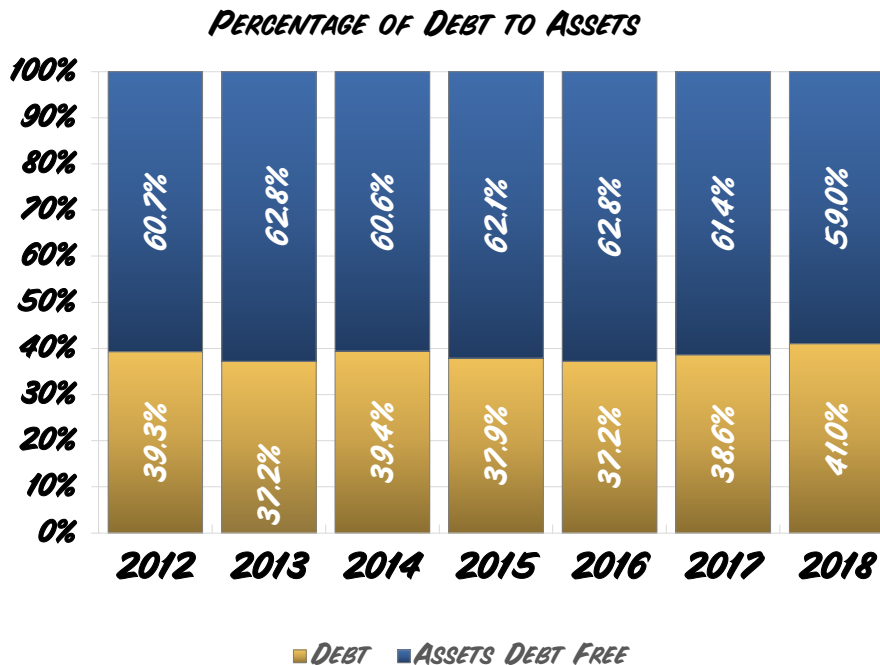
For the year ended September 30, 2018, Chuuk had \$7.9 million of long-term debt or \$163. This rating remains indicative of a relatively low debt burden on its citizens when compared with other insular governments. Along with being a relatively consistent ratio over the past several years, it is also considered an excellent ratio.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$157	\$266	\$262	\$252	\$244	\$235	\$192	\$184	\$177	\$163



DEBT TO ASSETS

WHO REALLY OWNS CHUUK?



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

At September 30, 2018, 41.0% of Chuuk's \$70.5 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 Chuuk owns, it owes 41 cents of that dollar to others. However, this is a slight decline in the ratio when compared to prior year.

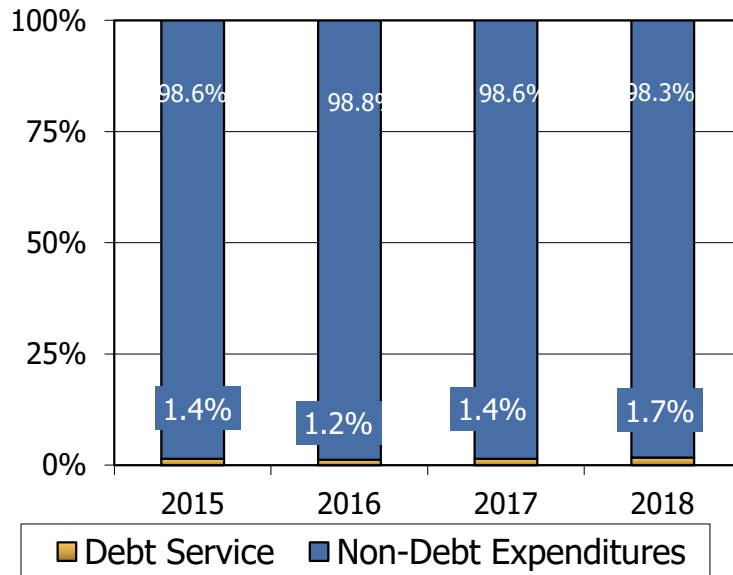
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
35.0%	42.0%	41.5%	39.3%	37.2%	39.4%	37.9%	37.2%	38.6%	41.0%



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, Chuuk’s total non-capital expenditures amounted to \$40.3 million, of which \$675,796 (or 1.7%), 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 Chuuk spent on non-capital items, 1.7 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.

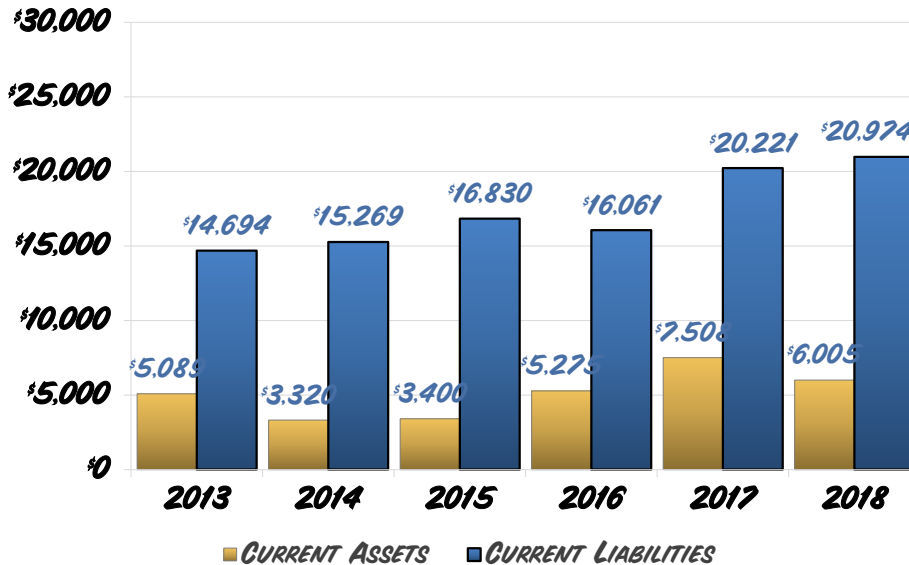
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
N/A	N/A	N/A	N/A	N/A	N/A	1.4%	1.2%	1.4%	1.7%



CURRENT RATIO

WILL OUR VENDORS AND EMPLOYEES BE PLEASED WITH OUR ABILITY TO PAY THEM ON TIME?

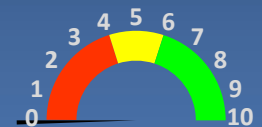
CURRENT ASSETS COMPARED TO CURRENT LIABILITIES



The current ratio is one measure of CHUUK’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 (Chuuk’s primary operating fund) and Chuuk’s proprietary type enterprise funds.

At September 30, 2018, Chuuk’s General Fund had a ratio of current assets to current liabilities of 0.29 to 1. This indicates that Chuuk has 29 cents of current assets to fund each dollar of current liabilities. This is considered an unfavorable ratio, and it represents a slight decrease of the ratio from the prior year.

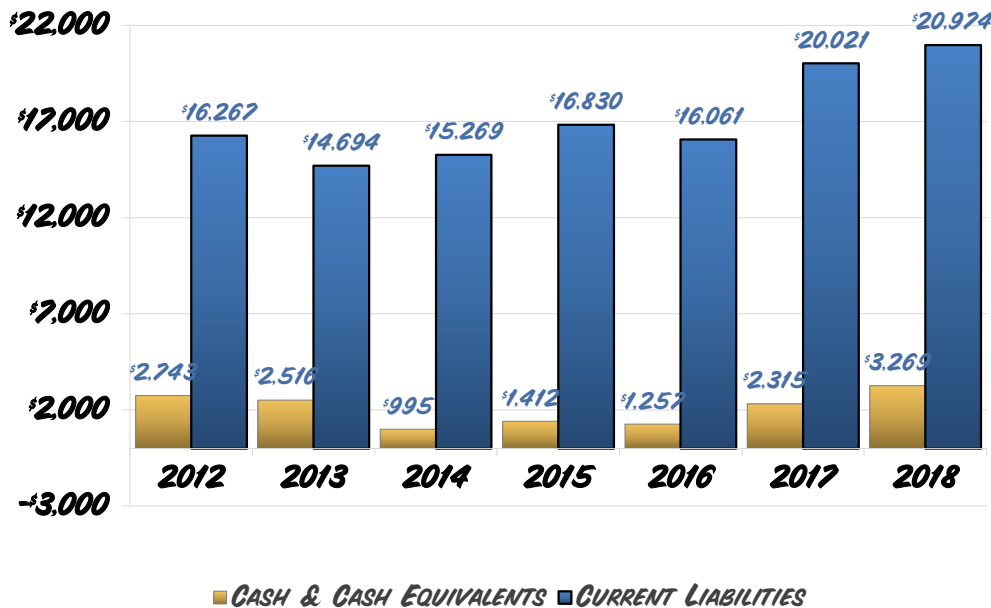
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
.33	.32	.34	.30	.35	.22	.20	.33	.38	.29



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 Chuuk’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 includes only the General Fund, Chuuk’s primary operating fund.

At September 30, 2018, Chuuk’s General Fund had a ratio of cash and cash equivalents to current liabilities of 0.16 to 1. This indicates that Chuuk has, for every one dollar of current liabilities, 16 cents of cash and cash equivalents to fund them. This is an unsatisfactory indicator of liquidity, but does represent a slight improvement when compared to the ratio of the prior year.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
.16	.21	.16	.17	.17	.07	.08	.08	.12	.16



PERFORMETER® READING

HOW WAS OUR OVERALL FINANCIAL PERFORMANCE?

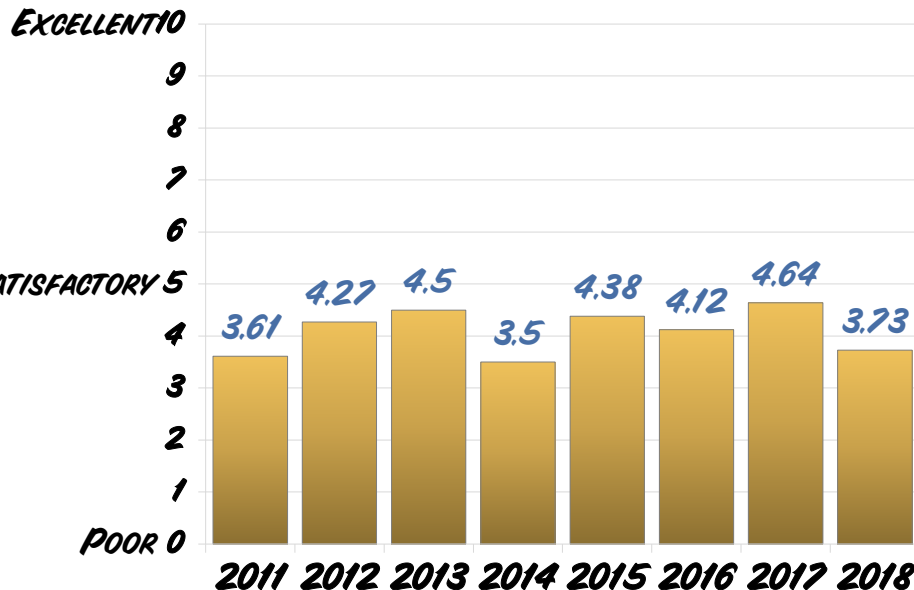
For the 2018 fiscal year, the readings by ratio category were as follows:

Financial Position	0.59
Financial Performance	3.83
Financial Capability	7.38

The 2018 reading of 3.73 indicates the evaluator's opinion that Chuuk Government's overall financial health and performance was considered less than satisfactory as of and for the fiscal year ended September 30, 2018, and represents a decrease from the reading of the prior year.

Chuuk's improvement of revenue dispersion, quick ratio, low debt and taxes margins, and low debt service load were not enough to offset the overall decline in the other ratios. The size of the unrestricted net position deficit, the decline in the change in net position, the size of the General Fund unassigned fund balance deficit, and insufficient current quick ratios remain the primary reasons for the less than satisfactory reading of the current year.

OVERALL READING



FY 18 OVERALL PERFORMETER® READING: **3.73**



<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>4.1%</i>	<i>-3.7%</i>	<i>0.3%</i>	<i>0.7%</i>	<i>7.6%</i>	<i>-3.0%</i>
<i>INTERGENERATIONAL EQUITY</i>	<i>100.4%</i>	<i>93.4%</i>	<i>97.3%</i>	<i>97.7%</i>	<i>102.4%</i>	<i>94.3%</i>
<i>LEVEL OF UNRESTRICTED NET POSITION</i>	<i>-68.3%</i>	<i>-64.4%</i>	<i>-61.7%</i>	<i>-55.4%</i>	<i>-45.8%</i>	<i>-41.1%</i>
<i>LEVEL OF UNASSIGNED FUND BALANCE</i>	<i>128.9%</i>	<i>124.1%</i>	<i>-133.8%</i>	<i>110.2%</i>	<i>-82.3%</i>	<i>-76.9%</i>
<i>REVENUE DISPERSION</i>	<i>11.9%</i>	<i>11.3%</i>	<i>11.5%</i>	<i>12%</i>	<i>11.6%</i>	<i>13.2%</i>
<i>CAPITAL ASSET CONDITION</i>	<i>25%</i>	<i>23%</i>	<i>22%</i>	<i>20%</i>	<i>19%</i>	<i>17%</i>
<i>FINANCING MARGIN - TAXES</i>	<i>\$117</i>	<i>\$106</i>	<i>\$114</i>	<i>\$133</i>	<i>\$144</i>	<i>\$137</i>
<i>FINANCING MARGIN - DEBT/OBLIGATIONS</i>	<i>\$244</i>	<i>\$235</i>	<i>192</i>	<i>\$184</i>	<i>\$177</i>	<i>\$163</i>
<i>DEBT SERVICE LOAD</i>	<i>N/A</i>	<i>N/A</i>	<i>1.4%</i>	<i>1.2%</i>	<i>1.4%</i>	<i>1.7%</i>
<i>DEBT TO ASSETS</i>	<i>37.2%</i>	<i>39.4%</i>	<i>37.9%</i>	<i>37.2%</i>	<i>38.6%</i>	<i>41%</i>
<i>CURRENT RATIO</i>	<i>0.35</i>	<i>0.22</i>	<i>0.20</i>	<i>0.33</i>	<i>0.38</i>	<i>0.29</i>
<i>QUICK RATIO</i>	<i>0.17</i>	<i>0.07</i>	<i>0.08</i>	<i>0.08</i>	<i>0.12</i>	<i>0.16</i>
<i>OVERALL PERFORMETER READING</i>	<i>4.50</i>	<i>3.48</i>	<i>4.38*</i>	<i>4.12*</i>	<i>4.64*</i>	<i>3.73</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	1	1	2	2	2	1	1	1
Number of Major Federal Program Qualifications/Exceptions	1	0	0	1	1	0	0	0	0
Number of F.S. Findings									
A. Internal Control and Compliance	0	0	0	0	0	0	0	0	0
B. Internal Control Only	1	5	4	5	2	2	2	2	3
C. Compliance Only	0	0	0	0	0	0	0	0	0
TOTAL	1	5	4	5	2	2	2	2	3
Percentage of Findings Repeated	0%	20%	50%	60%	100%	100%	100%	100%	67%
Number of Single Audit Findings									
A. Internal Control and Compliance	1	1	1	3	2	4	1	0	1
B. Internal Control Only	0	0	0	1	1	0	0	1	0
C. Compliance Only	0	1	0	0	0	0	0	1	0
TOTAL	1	2	1	4	3	4	1	1	1
Percentage of S.A. Findings Repeated	100%	100%	100%	25%	50%	25%	100%	100%	100%
Number of months after Y/E the F.S. were Released	9	9	9	9	9	9	9	9	9
Number of Qualifications/Exceptions Related to C.U.	1	1	0	0	0	0	0	0	0
\$ of Questioned Costs-Current Year	\$0	\$0	\$0	\$194,238	\$114,918	\$55,292	\$0	\$0	\$0
\$ of Questioned Costs- Cumulative	\$0	\$0	\$0	\$194,238	\$309,156	\$364,448	\$364,448	\$0	\$0
\$ of Questioned Costs Resolved – Current Year	\$1,055,719	\$0	\$0	\$0	\$0	\$0	\$0	\$364,448	\$0

THANK YOU!

- We would like to commend and thank CHUUK'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 CHUUK'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.