



# *POHNPEI*

## *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 Government of Pohnpei 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 Pohnpei'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 Pohnpei as a whole
- Use the comparisons to prior years to monitor trends in financial indicators

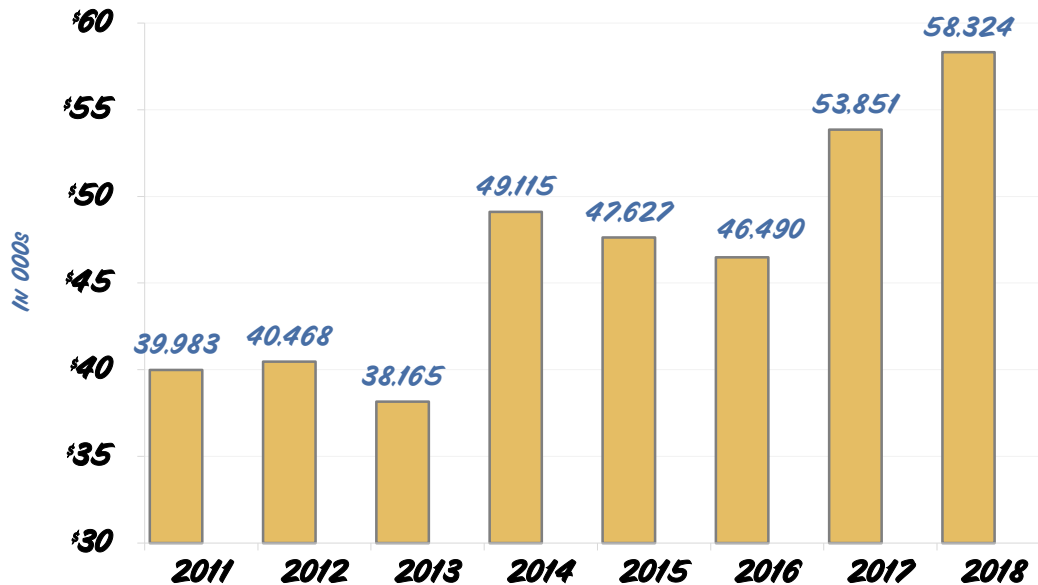
# ***LIMITATIONS OF THE PERFORMETER®***

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



Net position includes all assets of Pohnpei, excluding discretely presented component units. 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 increased by \$4.5 million or 8.3% from the prior year. This represents an increase in the overall total net position when compared to the prior period, however it is a smaller increase than in the prior year.

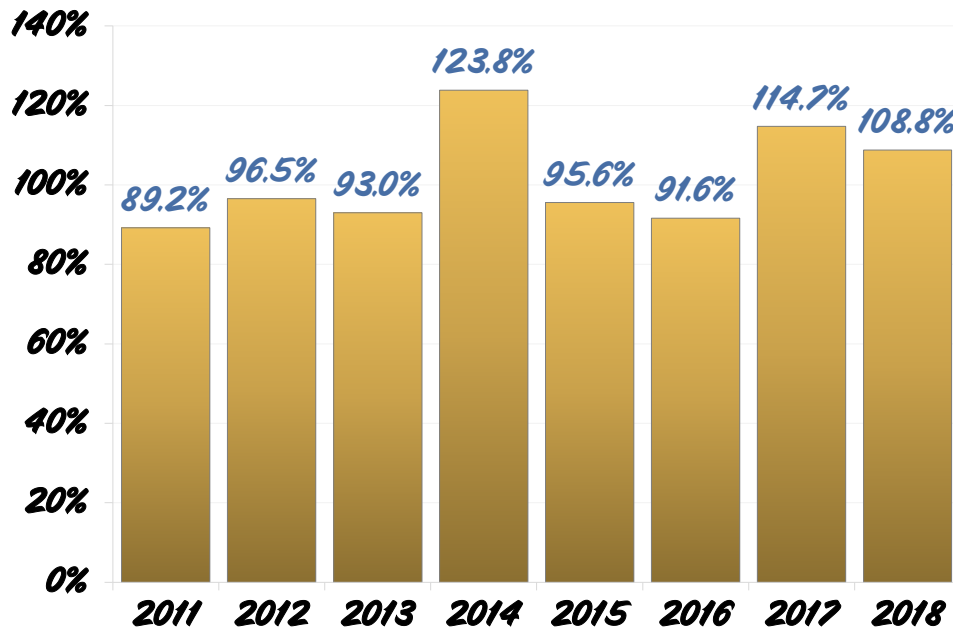
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-3.5%	9.1%	-8.6%	1.2%	-5.7%	23.7%	-3.0%	-3.5%	15.8%	8.3%



# 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, Pohnpei funded 108.8% of their expenses with current year revenues. This is considered an excellent ratio, and represents a decrease when compared to the ratio of the prior year.

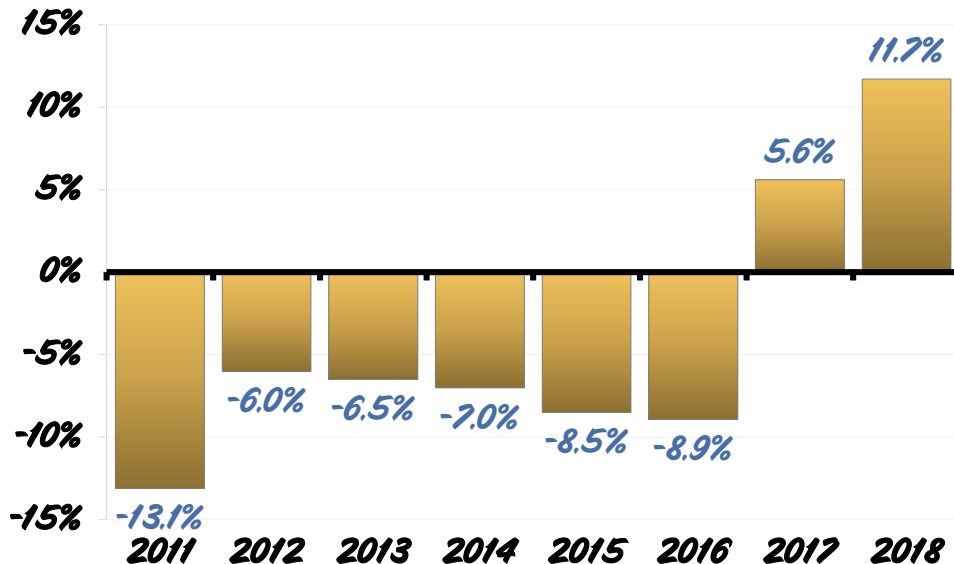
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
95.6%	110.5%	89.2%	96.5%	93%	123.8%	95.6%	91.6%	114.7%	108.8%



# 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 (deficit) is an indication of the amount of unexpended and available resources Pohnpei has at a point in time to fund emergencies, shortfalls or other unexpected needs.

For the year ended September 30, 2018, Pohnpei's total unrestricted net position approximated a positive 11.7% of annual total revenues. This is an improvement from the ratio reported in the prior period, and improves upon last year's first-time positive unrestricted net position level.

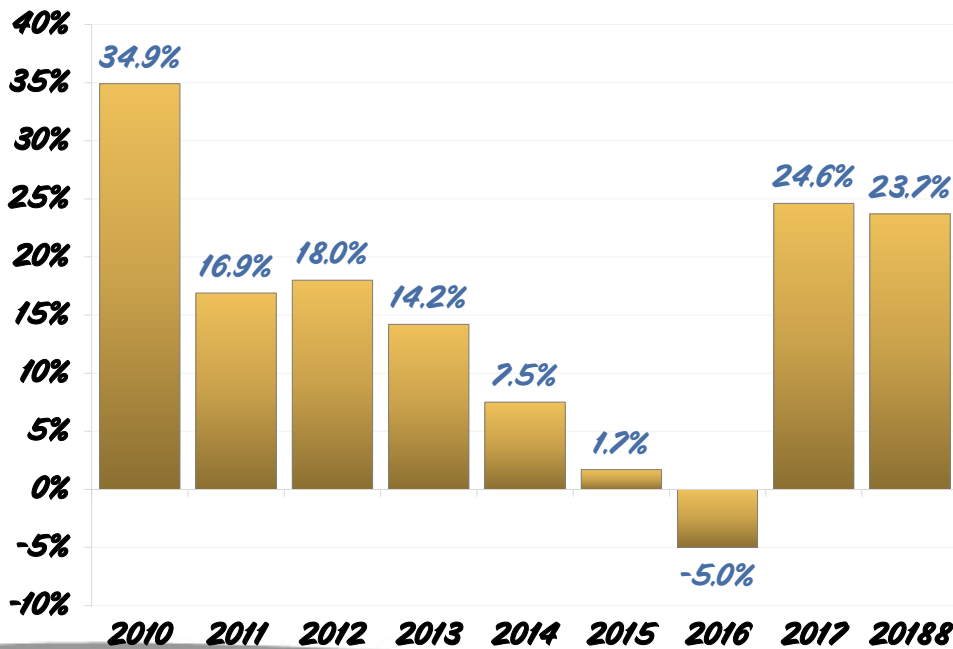
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-6.5%	-6.6%	-13.1%	-6%	-6.5%	-7%	-8.5%	-8.9%	5.6%	11.7%



# 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 Pohnpei 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, 2018, Pohnpei's unassigned fund balance of the General Fund was approximately 23.7% of annual revenues. This represents a slight decrease from the ratio of the prior period but it is still considered to be a well above satisfactory indicator.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
39.8%	34.9%	16.9%	18%	14.2%	7.5%	1.7%	-5%	24.6%	23.7%

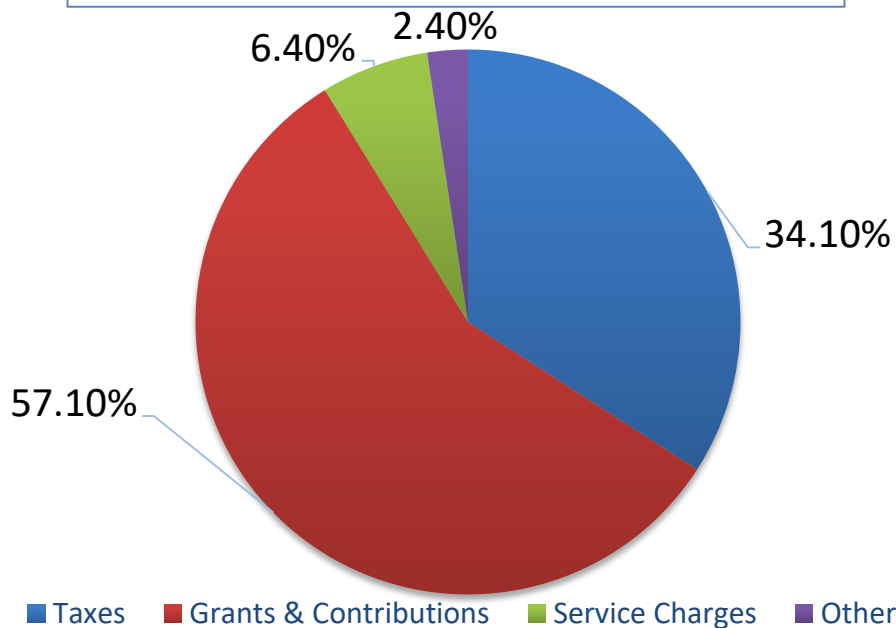




# REVENUE DISPERSION

*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 Pohnpei is on certain types of revenue. The more dependent Pohnpei 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, 2018, Pohnpei had direct control over 16% of its revenues, including charges for services and some local taxes. This ratio indicates Pohnpei has exposure, as do most insular governments, to financial difficulties due to reliance (84%) on non-controlled revenues.

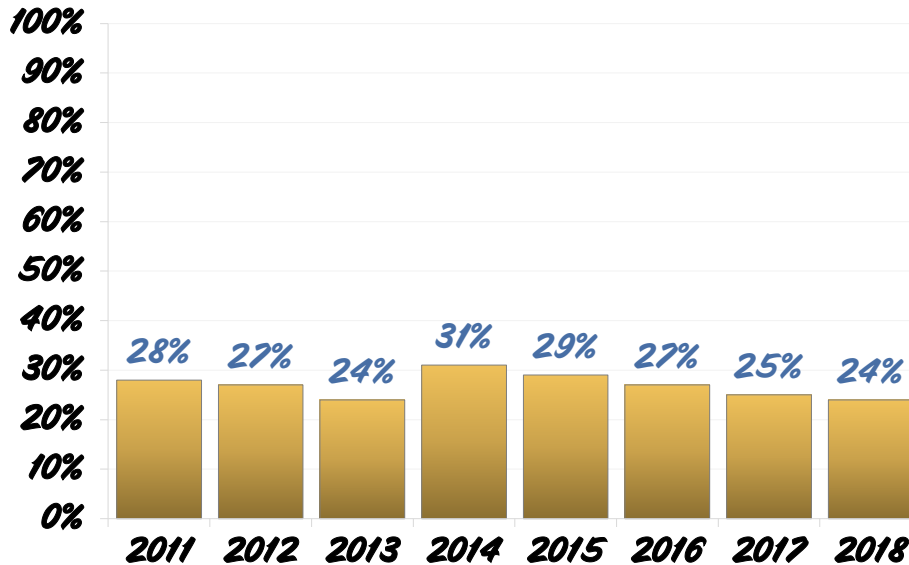
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
11.7%	11.1%	13.4%	11.6%	12.6%	9.3%	12.4%	14.8%	14.1%	16.0%



# 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, 2018, Pohnpei's depreciable capital assets amounted to \$104.6 million while accumulated depreciation totaled \$79.6 million. This indicates that, on the average, Pohnpei's capital assets have 24% of their useful lives remaining, which is a below satisfactory ratio, and represents a slight decline when compared to the ratio of the prior period.

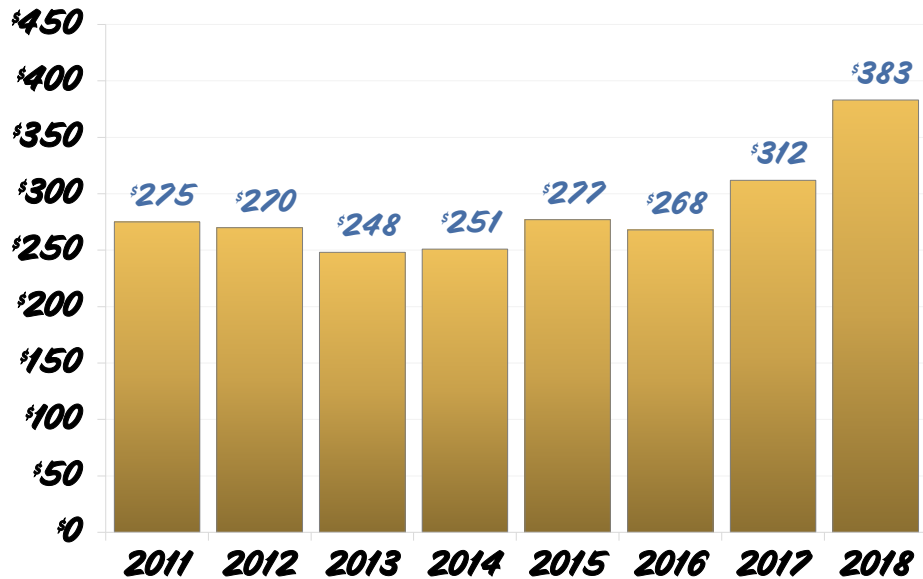
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
29%	30%	28%	27%	24%	31%	29%	27%	25%	24%



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

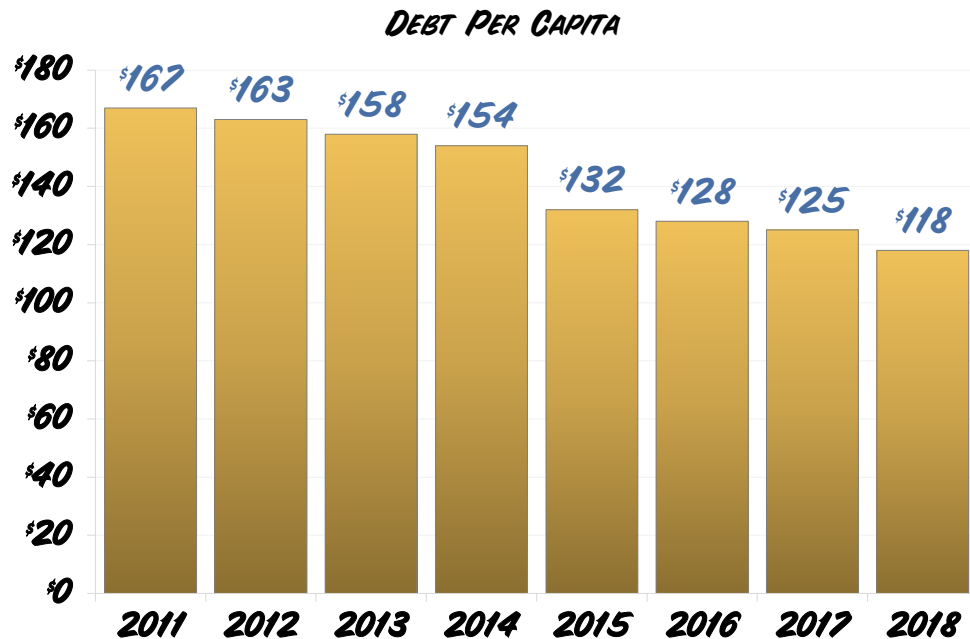
For the year ended September 30, 2018, total taxes amounted to \$13.8 million or \$383 per capita. This indicates a very favorable tax burden when compared with other insular governments, however it does represent a significant increase from the ratios of the prior years.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$265	\$273	\$275	\$270	\$248	\$251	\$277	\$268	\$312	\$383



# FINANCING MARGIN - DEBT

*WILL WE BE ABLE TO ISSUE MORE DEBT, IF NEEDED?*



The financial ratio of debt per capita is an indication of Pohnpei’s debt burden on its citizens and other taxpayers.

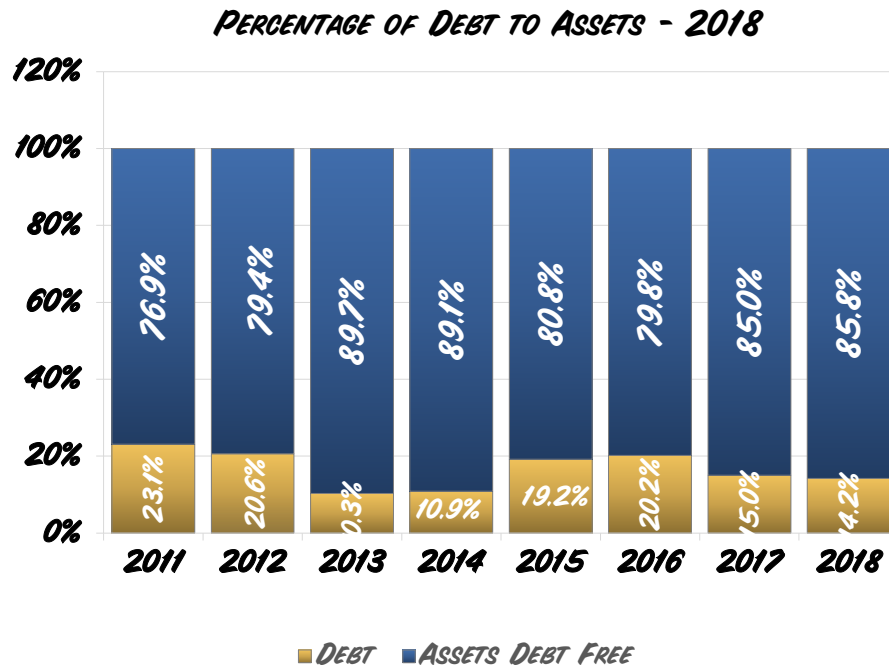
For the year ended September 30, 2018, Pohnpei had \$4.2 million in long-term debt, or \$118 per capita which is considered a low debt burden on its citizens when compared to other insular governments, with the ratio showing continued improvements over the last several years.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$161	\$172	\$167	\$163	\$158	\$154	\$132	\$128	\$125	\$118



# DEBT TO ASSETS

## WHO REALLY OWNS POHNPEI?



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

At September 30, 2018, 14.2% of Pohnpei's \$68 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 Pohnpei owns, it owes 14.2 cents of that dollar to others. This ratio is a slight improvement when compared with the ratio of the previous period.

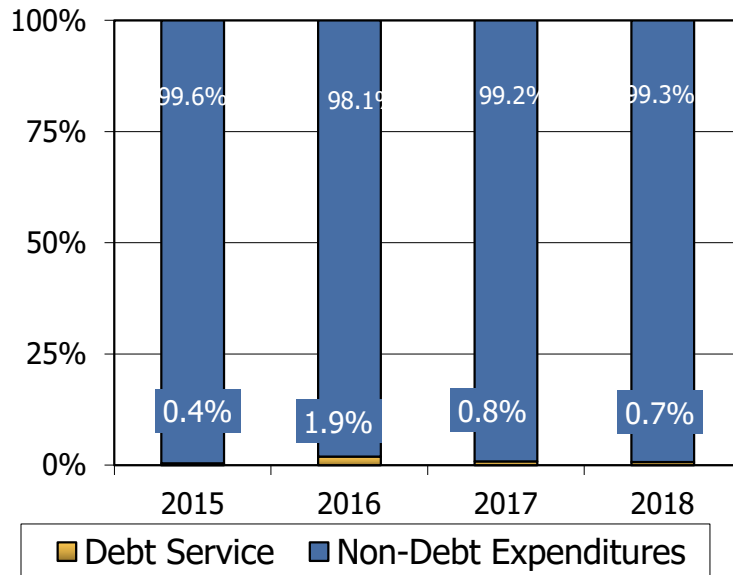
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
20.1%	20.7%	23.1%	20.6%	10.3%	10.9%	19.2%	20.2%	15.0%	14.2%



# 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, Pohnpei's total non-capital expenditures amounted to \$35.8 million, of which \$262,862 (or 0.7%), 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 Pohnpei spent on non-capital items, 0.7 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.

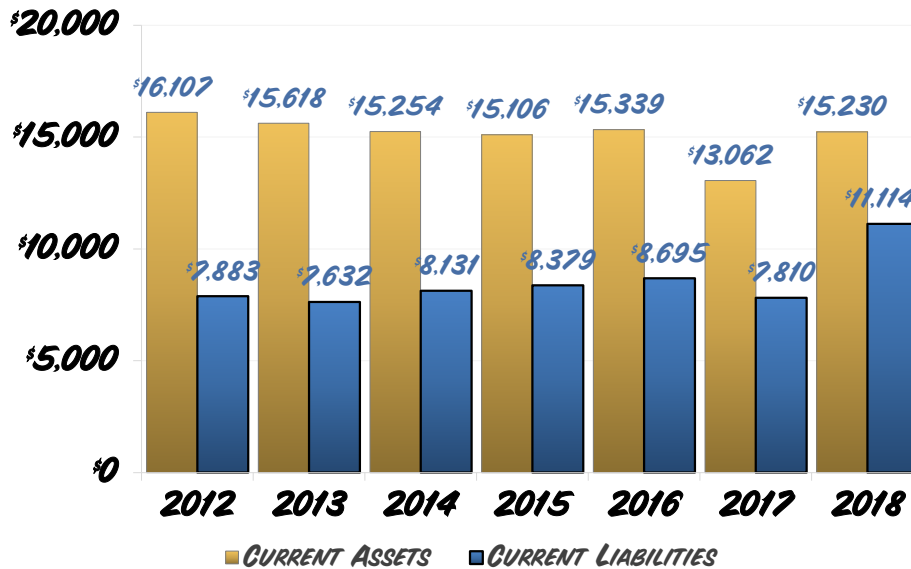
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
N/A	N/A	N/A	N/A	N/A	N/A	0.4%	1.9%	0.8%	0.7%



# 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 Pohnpei’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 Pohnpei.

At September 30, 2018, Pohnpei had a General Fund ratio of current assets to current liabilities of 1.37 to 1. This indicates that Pohnpei had a little over one and one-thirds the amount of current assets to pay current liabilities. This is considered to be a less than satisfactory indicator of liquidity and a decrease when compared with the ratios of the last few prior periods.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1.51	1.31	1.69	2.04	2.05	1.88	1.80	1.76	1.67	1.37

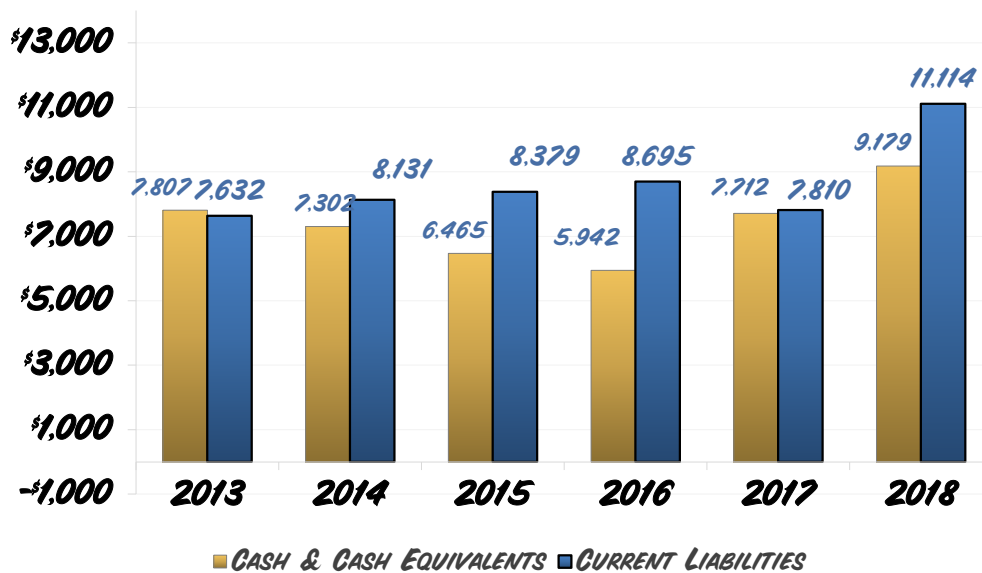




# QUICK RATIO

## HOW IS OUR SHORT-TERM CASH POSITION?

CASH AND CASH EQUIVALENTS COMPARED TO CURRENT LIABILITIES



The quick ratio is another, more conservative, measure of Pohnpei’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 Pohnpei.

At September 30, 2018, Pohnpei had a General Fund ratio of cash and cash equivalents to current liabilities of 0.83 to 1. This indicates that Pohnpei had 83 cents of cash and cash equivalents available to pay each \$1 of current liabilities, which is considered a below satisfactory financial liquidity ratio, and a decrease from the ratio of the previous period.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
0.76	0.45	0.61	1.05	1.02	0.90	0.77	0.68	0.99	0.83





# PERFORMETER® READING

## HOW WAS OUR OVERALL FINANCIAL PERFORMANCE?

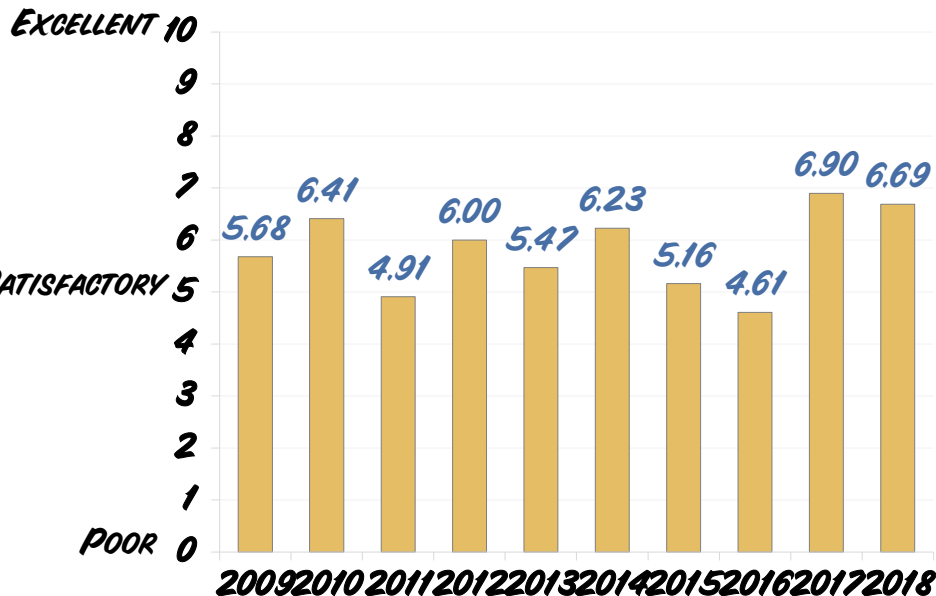
For the 2018 fiscal year, the readings by ratio category were as follows:

Financial Position	5.4
Financial Performance	9.5
Financial Capability	6.9

The 2018 overall reading of 6.69 indicates the evaluator's opinion that Pohnpei's overall financial health and performance improved slightly when compared to the prior period.

Pohnpei's overall financial health improved slightly during the 2018 fiscal year and maintained an above satisfactory reading. The primary reasons for the above satisfactory reading are the low debt service load ratio, its low tax and debt burdens per capita, its low debt to assets ratio, and the positive unrestricted net position and General Fund unassigned fund balance.

OVERALL READING



FY 18 OVERALL PERFORMETER® READING: 6.69



<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>-5.7%</i>	<i>23.7%</i>	<i>-3.0%</i>	<i>-3.5%</i>	<i>15.8%</i>	<i>8.3%</i>
<i>INTERGENERATIONAL EQUITY</i>	<i>93%</i>	<i>123.8%</i>	<i>95.6%</i>	<i>91.6%</i>	<i>114.7%</i>	<i>108.8%</i>
<i>LEVEL OF UNRESTRICTED NET POSITION</i>	<i>-6.5%</i>	<i>-7.0%</i>	<i>-8.5%</i>	<i>-8.9%</i>	<i>5.6%</i>	<i>11.7%</i>
<i>LEVEL OF UNASSIGNED FUND BALANCE</i>	<i>14.2%</i>	<i>7.5%</i>	<i>1.7%</i>	<i>-5.0%</i>	<i>24.6%</i>	<i>23.7%</i>
<i>REVENUE DISPERSION</i>	<i>12.6%</i>	<i>9.3%</i>	<i>12.4%</i>	<i>14.8%</i>	<i>14.1%</i>	<i>16%</i>
<i>CAPITAL ASSET CONDITION</i>	<i>24%</i>	<i>31%</i>	<i>29%</i>	<i>27%</i>	<i>25%</i>	<i>24%</i>
<i>FINANCING MARGIN - TAXES</i>	<i>\$248</i>	<i>\$251</i>	<i>\$277</i>	<i>\$268</i>	<i>\$312</i>	<i>\$383</i>
<i>FINANCING MARGIN - DEBT/OBLIGATIONS</i>	<i>\$158</i>	<i>\$154</i>	<i>\$132</i>	<i>\$128</i>	<i>\$125</i>	<i>\$118</i>
<i>DEBT SERVICE LOAD</i>	<i>N/A</i>	<i>N/A</i>	<i>0.4%</i>	<i>1.9%</i>	<i>0.8%</i>	<i>0.7%</i>
<i>DEBT TO ASSETS</i>	<i>10.3%</i>	<i>10.9%</i>	<i>19.2%</i>	<i>20.2%</i>	<i>15%</i>	<i>14.2%</i>
<i>CURRENT RATIO</i>	<i>2.05</i>	<i>1.88</i>	<i>1.80</i>	<i>1.76</i>	<i>1.67</i>	<i>1.37</i>
<i>QUICK RATIO</i>	<i>1.02</i>	<i>0.90</i>	<i>0.77</i>	<i>0.68</i>	<i>0.99</i>	<i>0.83</i>
<i>OVERALL PERFORMETER READING</i>	<i>5.47</i>	<i>6.23</i>	<i>*5.16</i>	<i>*4.61</i>	<i>*6.90</i>	<i>6.69</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	1	1	1
Number of Major Federal Program Qualifications/Exceptions	0	0	1	1	1	0	0	0
Number of F.S. Findings								
A. Internal Control and Compliance	0	0	0	0	0	0	0	0
B. Internal Control Only	0	0	1	1	1	2	1	1
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	0	0	1	1	1	2	1	1
Percentage of Findings Repeated	0%	0%	0%	0%	0%	0%	100%	100%
Number of Single Audit Findings								
A. Internal Control and Compliance	1	1	3	4	4	0	1	1
B. Internal Control Only	0	0	1	0	0	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	1	1	4	4	4	1	1	1
Percentage of S.A. Findings Repeated	100%	100%	25%	25%	25%	100%	100%	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	\$0	\$0	\$0	\$541,593	\$368,539	\$0	\$0	\$0
\$ of Questioned Costs- Cumulative	\$0	\$0	\$121,682	\$663,275	\$1,032,816	\$1,032,816	\$584,803	\$584,803
\$ of Questioned Costs Resolved – Current Year	\$0	\$0	\$121,682	\$0	\$0	\$0	\$448,013	\$0

# THANK YOU!

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