



# *U.S. VIRGIN 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 Government of the U.S. Virgin 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 VI'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 VI as a whole
- Use the comparisons to prior years to monitor trends in financial indicators

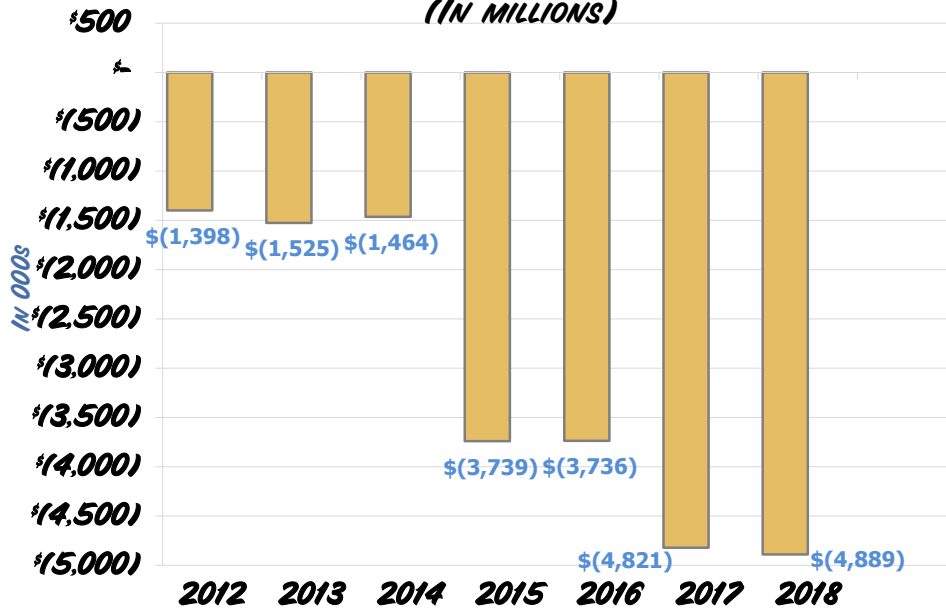
# ***LIMITATIONS OF THE PERFORMETER®***

- The Performer® should not be used as the only source of financial information to evaluate VI's performance and condition
- The analysis is an overall rating of VI 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?*

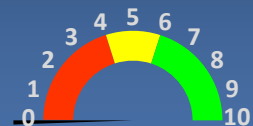
NET POSITION AT YEAR END  
(IN MILLIONS)



Net position includes all assets of the VI, except for fiduciary funds held for the benefit of others. It is measured as the difference between total assets, including capital assets, and deferred outflows, netted against liabilities, including long-term debt, and deferred inflows.

For the year ended September 30, 2018, total net position decreased by \$68.3 million or 1.4% from the prior year, leaving a total net position (deficit) of approximately \$(4.9) billion at year end. This decrease in the total net position (deficit) was primarily due to expenses exceeding revenues in the current year.

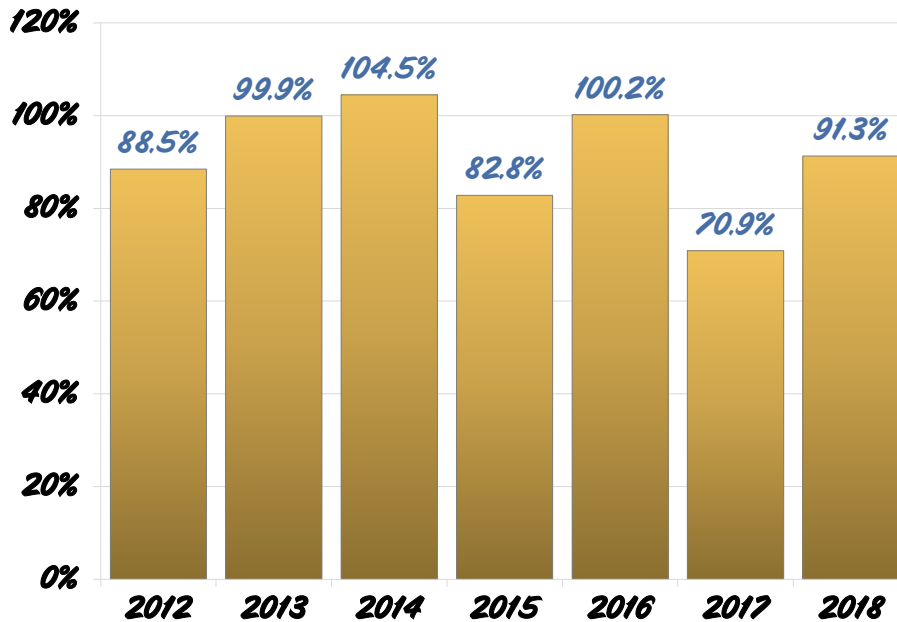
2010	2011	2012	2013	2014	2015	2016	2017	2018
-29.3%	-21.6%	13.3%	-9.1%	4%	-7.1%	0.1%	-20%	-1.4%



# 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 VI funded 91.3% of their current year expenses with current year revenues, which is considered an unhealthy ratio, but an improvement when compared to the ratio of the previous period.

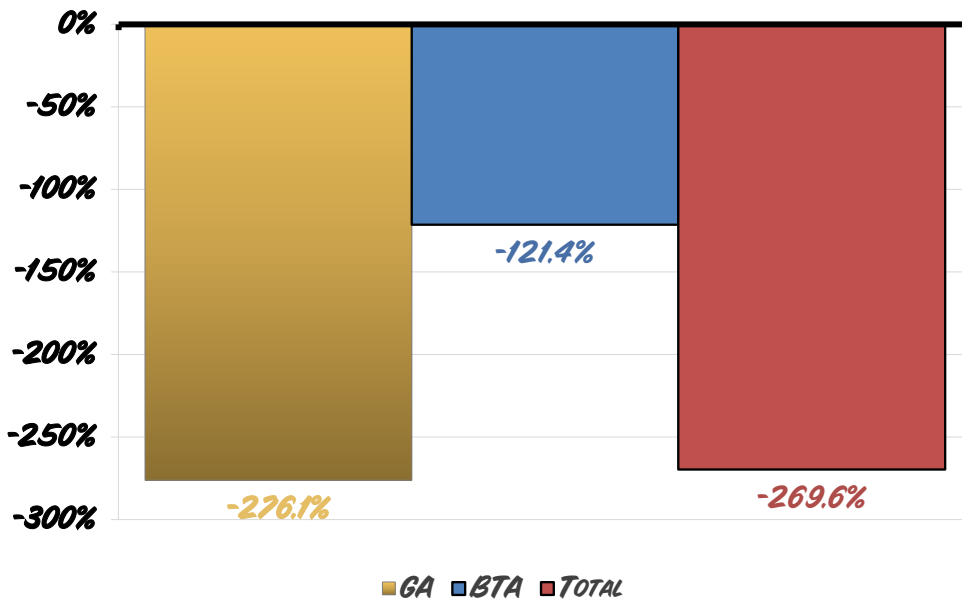
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
64.4%	86.2%	84.9%	88.5%	90.8%	104.5%	82.8%	100.2%	70.9%	91.3%



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

For the year ended September 30, 2018, the VI's total unrestricted net position (deficit) approximated \$(5.5) billion or 269.6% of annual total revenues. This is considered an unsatisfactory financial indicator but does represent an increase from the ratio of the prior year.

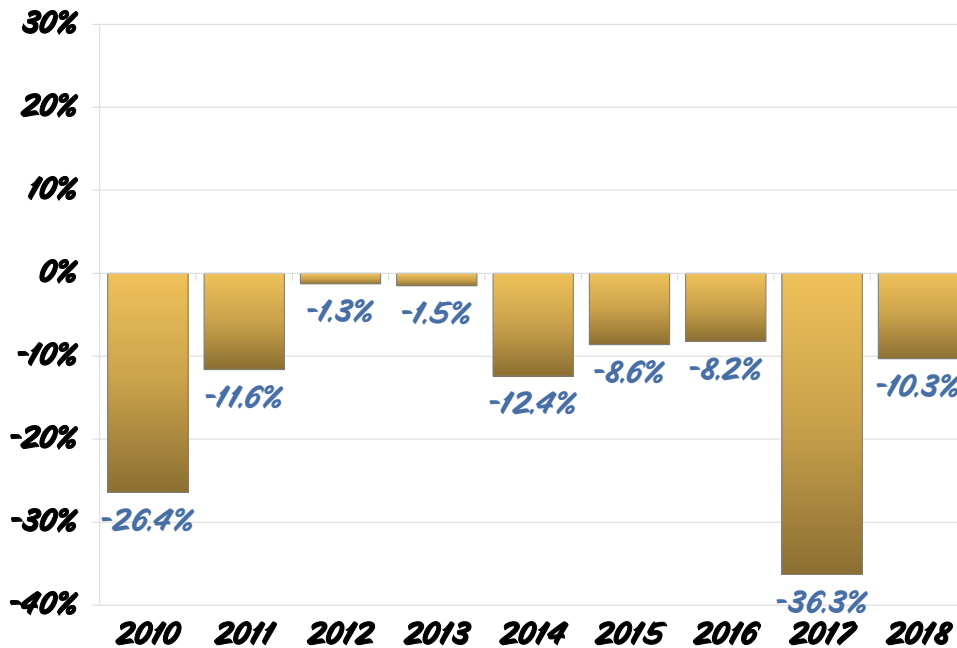
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-113.8%	-107.5%	-139.3%	-142.3%	-149.8%	-146.9%	-357.2%	-267.7%	-382.7%	-269.6%



# 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 VI 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, the VI's unassigned fund balance (deficit) of the General Fund was (\$72.4) million, equivalent to 10.3% of annual General Fund revenues. This is considered to be an unsatisfactory ratio and financial position for the General Fund to be in, but it does represent a significant improvement from the ratio of the prior year.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-12.9%	-26.4%	-11.6%	-1.3%	-1.5%	-12.4%	-8.6%	-8.2%	-36.3%	-10.3%

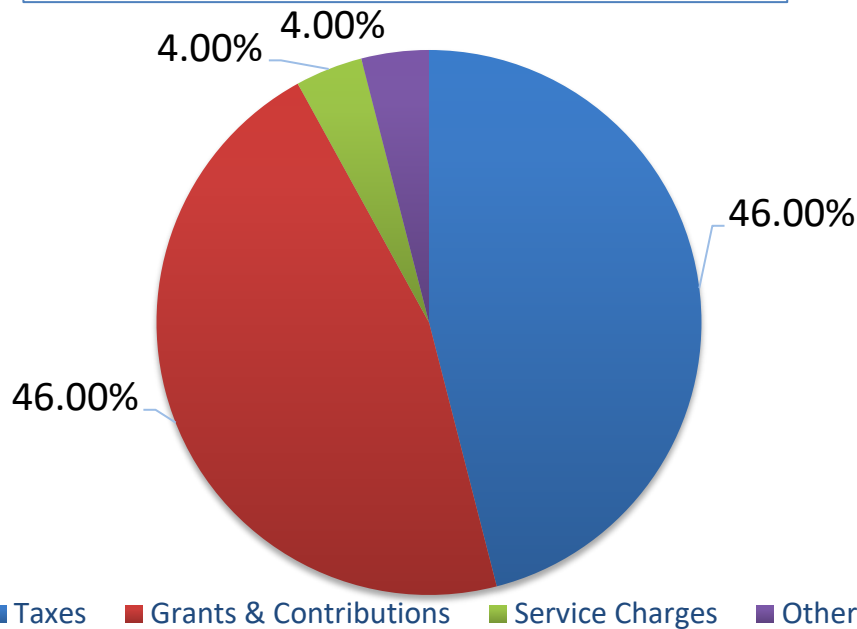




# REVENUE DISPERSION

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

For the year ended September 30, 2018, the VI had direct control over 31.5% of its revenues (some taxes and charges for services). This ratio indicates that the VI has some exposure, as do most insular governments, to financial difficulties due to reliance on non-controlled revenue (68.5%).

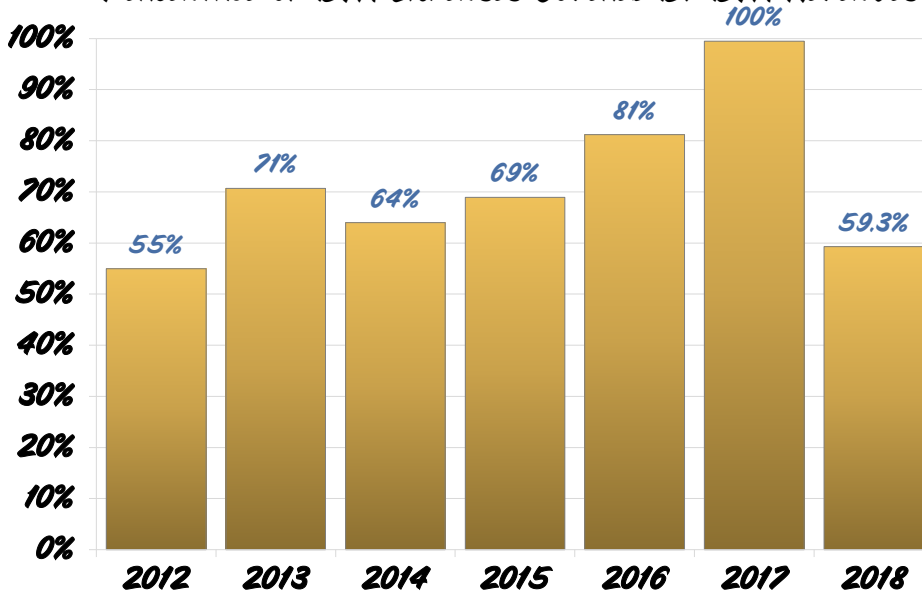
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
35.3%	22.3%	42.8%	48.7%	51.8%	43.5%	45.9%	37.7%	48.0%	31.5%



# BTA SELF-SUFFICIENCY

*DID CURRENT YEAR BUSINESS-TYPE ACTIVITIES (BTA) PAY FOR THEMSELVES?*

*PERCENTAGE OF BTA EXPENSES COVERED BY BTA REVENUES*



The self-sufficiency ratio indicates the level at which business-type activities covered their current costs with current year revenues, without having to rely on subsidies, grants or use of prior year reserves.

For the year ended September 30, 2018, the VI's total business-type activities were 59.3% self-sufficient. This indicates that, for the current year, the ratio has significantly declined when compared to the ratio of the prior year, and the costs of business-type activities in total are not 100% funded by recurring current year revenues, and require either a subsidy, the use of reserves, or a combination of both in order to meet their obligations.

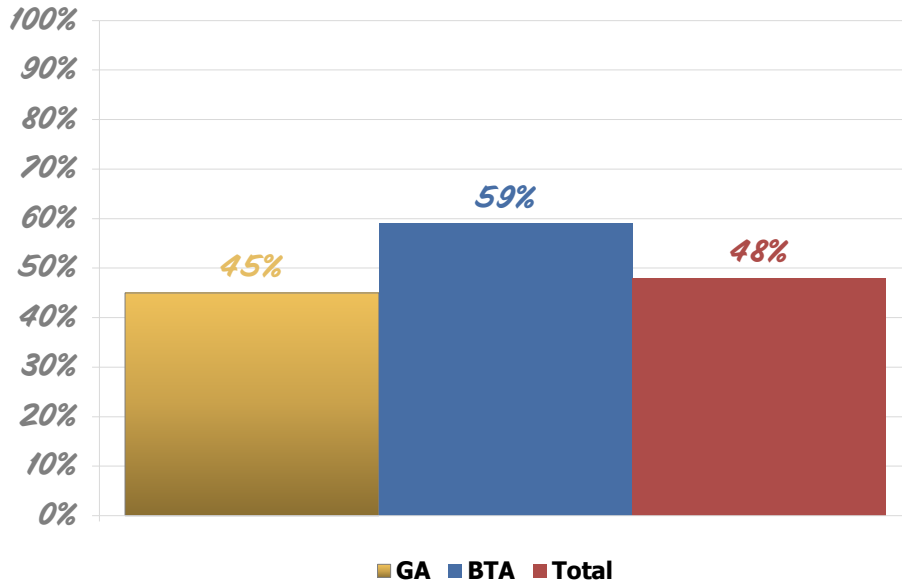
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
50.9%	58.2%	51.7%	55%	70.7%	64%	68.9%	81.2%	99.5%	59.3%



# 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.

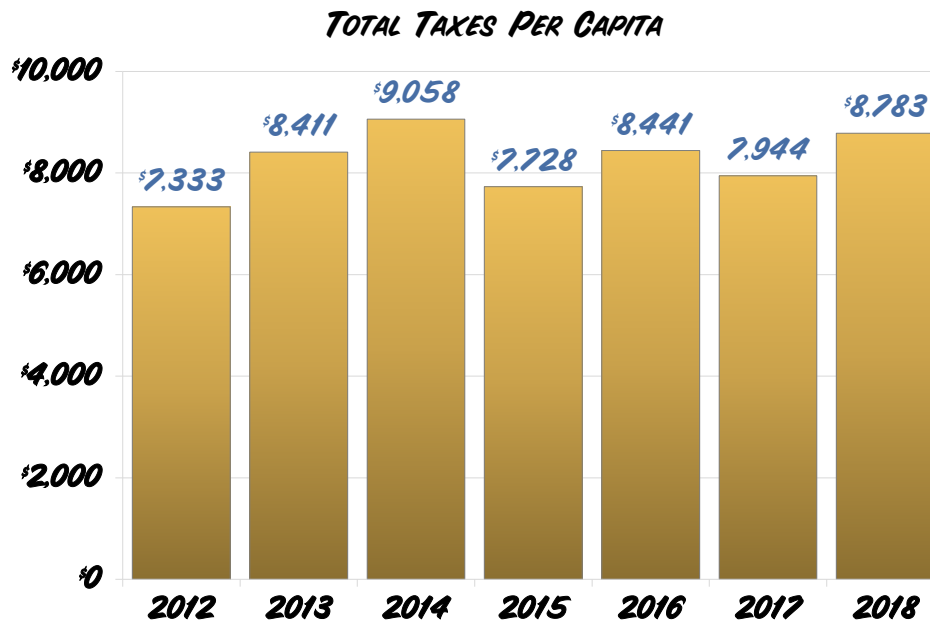
At September 30, 2018, the VI's depreciable capital assets amounted to \$1 billion while accumulated depreciation totaled \$521.2 million. This indicates that, on the average, the VI's capital assets have 48% of their useful lives remaining. This is considered a just below satisfactory financial indicator, and represents a slight decrease when compared to the ratios of previous periods.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
61%	60%	55%	55%	53%	54%	55%	54%	49%	48%



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

For the year ended September 30, 2018, total taxes amounted to \$934.6 million or \$8,783 per capita. This is considered a fairly significant tax burden per capita (when compared to other insular governments), and it represents an increase in the ratio from the prior period.

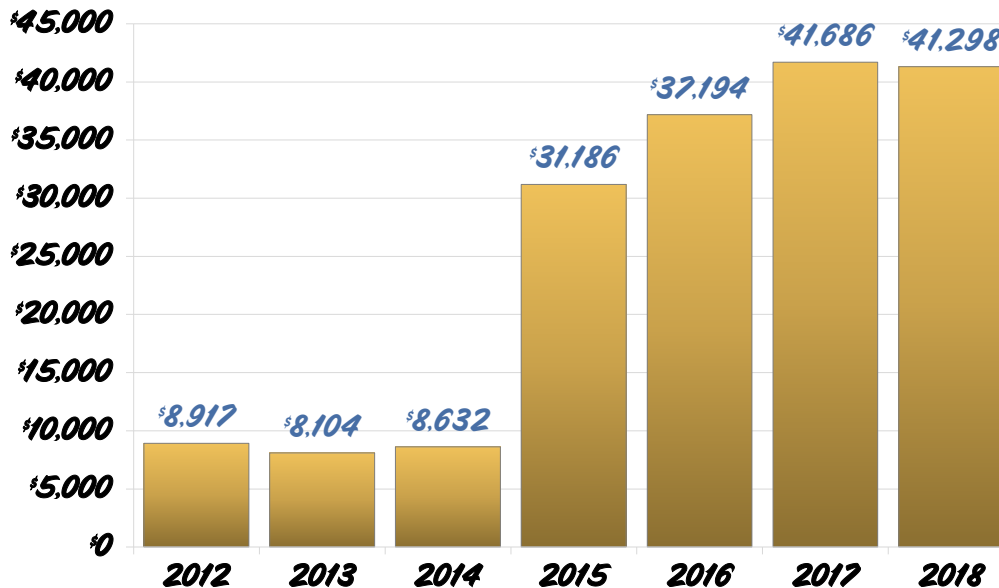
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$5,472	\$8,111	\$6,430	\$7,333	\$8,411	\$9,058	\$7,728	\$8,441	\$7,944	\$8,783



# FINANCING MARGIN - DEBT

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

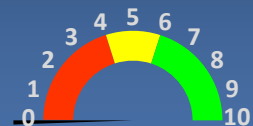
**DEBT PER CAPITA**



The financial ratio of debt per capita is an indication of the VI's debt burden on its citizens and other taxpayers.

For the year ended September 30, 2018, the VI had \$4,394 million of long-term debt or \$41,298 per capita which is a fairly significant debt burden on its citizens (when compared to other insular governments), and represents a slight decrease in the debt burden per capita when compared to the previous period. These debt amounts do not contain the debts paid with US government matching funds, or those paid by a dedicated stream of excise taxes received from the US government related to the production of rum. The significant increase in the debt per capita in 2015 from 2014 was related to the inclusion of net pension liabilities for the first time in the amount of approximately \$2.3 billion.

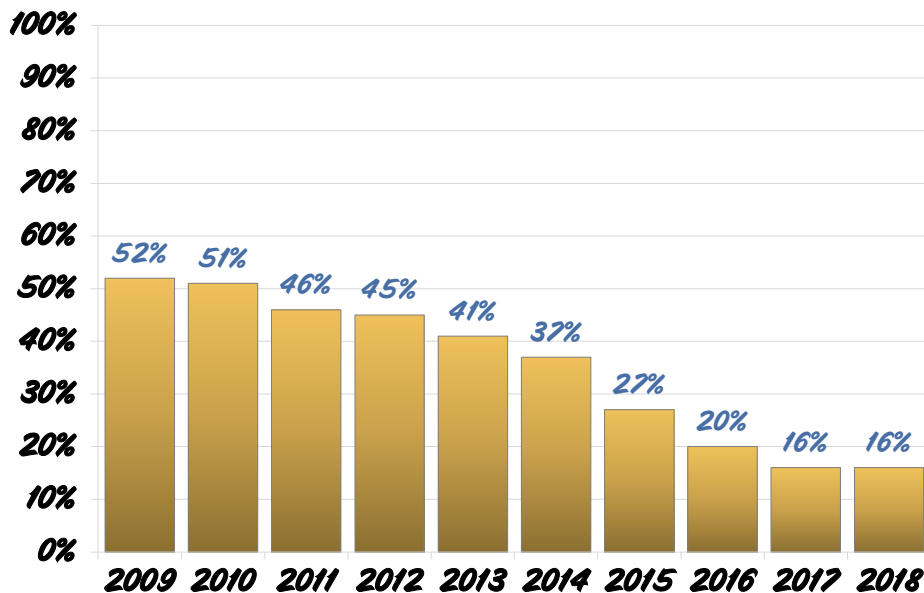
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$8,805	\$7,822	\$8,748	\$8,917	\$8,104	\$8,632	\$31,186	\$37,194	\$41,686	\$41,298



# 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 net position of the pension plan trust fund to the total pension liability for pension benefits. A percentage less than 100% indicates the plan is under-funded at the valuation date.

At September 30, 2018, based upon the most recent actuarial valuation, the VI pension plan net position was approximately 16% of the total pension liability, indicating that the plan was not improving its funded status when compared to prior periods. This is an indicator of potential long-term cash demands that may be necessary to fund the future needs of the plan. The funded portion of the plan has been declining since 2007 for a number of reasons, and now is at its lowest funded status of the years included in this analysis.

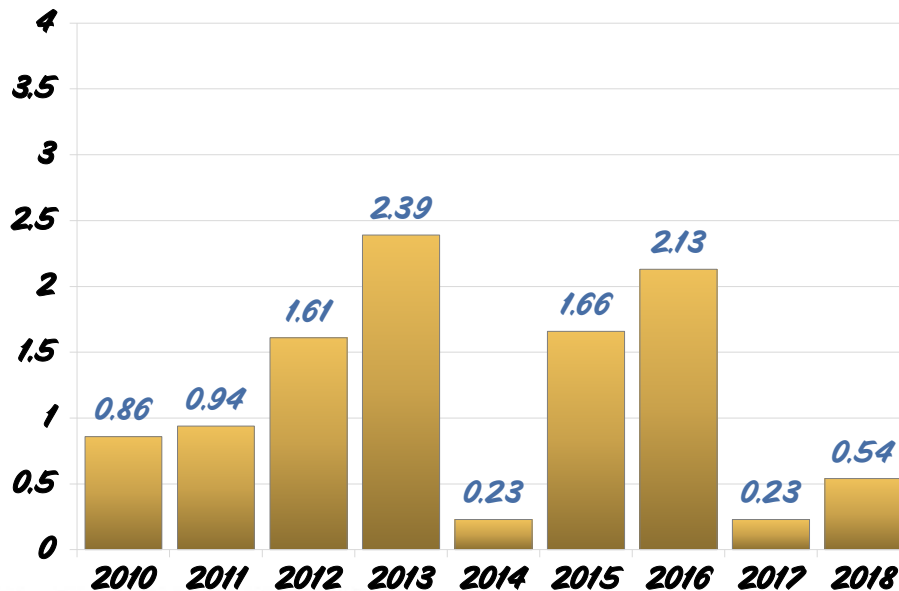
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
52%	51%	46%	45%	41%	37%	27%	20%	16%	16%



# DEBT SERVICE COVERAGE

*WERE OUR REVENUE BOND INVESTORS PLEASED WITH OUR ABILITY TO PAY THEM ON TIME?*

**NUMBER OF TIMES NET PLEDGED REVENUES COVER ANNUAL DEBT SERVICE**



The debt service coverage ratio compares the VI's debt service requirements on revenue bonds to the net operating cash generated by the revenue streams pledged for payment. A debt service ratio of greater than 1.25 indicates a sufficient ability to make the debt service payments from net revenue from operations.

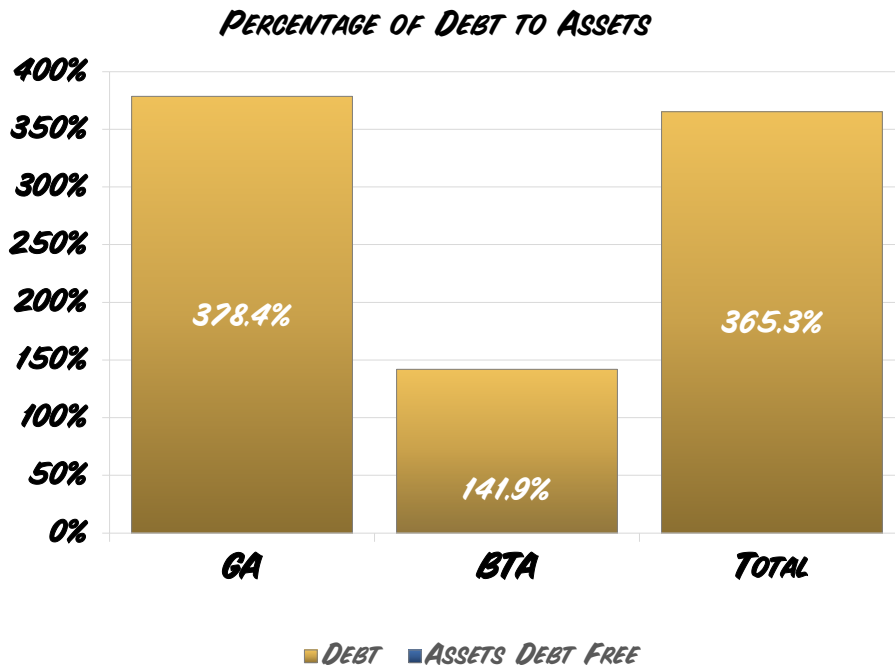
For the year ended September 30, 2018, the VI experienced an unfavorable debt service coverage ratio of 0.54, although it was an increase from the ratio in the prior year. This indicates the VI generated approximately 0.54 times the amount of cash necessary to pay the debt service requirements on its revenue bonds and notes related to the West Indian Company enterprise fund.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1.82	0.86	0.94	1.61	2.39	0.23	1.66	2.13	0.23	0.54



# DEBT TO ASSETS

## WHO REALLY OWNS THE VIRGIN ISLANDS?



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

At September 30, 2018, the VI had total debts or other obligations that exceeded its assets by 365%. This is an unfavorable financial indicator and indicates that none of the VI's assets are technically "debt-free", and for each dollar of assets the VI owns, it owes approximately \$3.65 in liabilities to others. The change in this ratio does represent an improvement from the ratio of the prior year.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
140%	147.6%	168.6%	175.4%	171%	176.3%	314.7%	323.3%	407.0%	365.3%

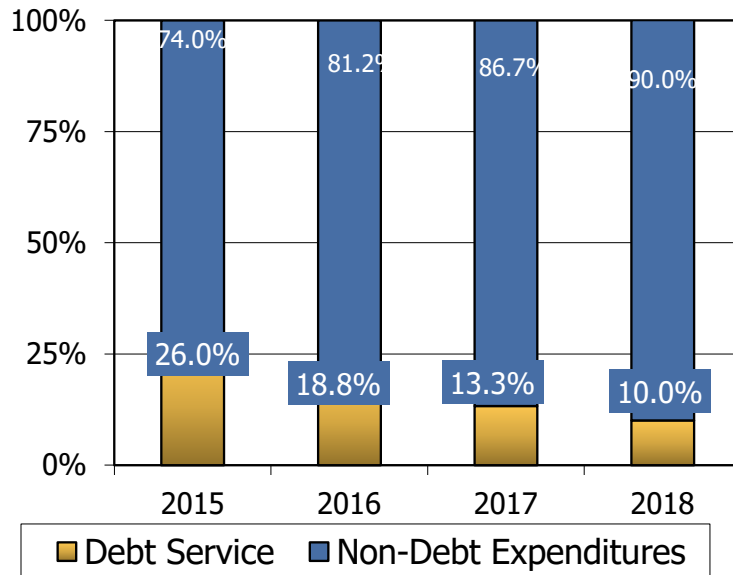




# DEBT SERVICE LOAD

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

For the year ended September 30, 2018, the VI's total non-capital expenditures amounted to \$2.0 billion, of which \$205 million (or 10.1%), were payments for principal and interest on long-term debt. In our model, this is considered a satisfactory ratio and indicates that for every dollar VI spent on non-capital items, 10.1 cents of that dollar was used for debt service. Restatements for FY 2015 and FY 2016 have been made to this score and the overall score due to the impact of this ratio.

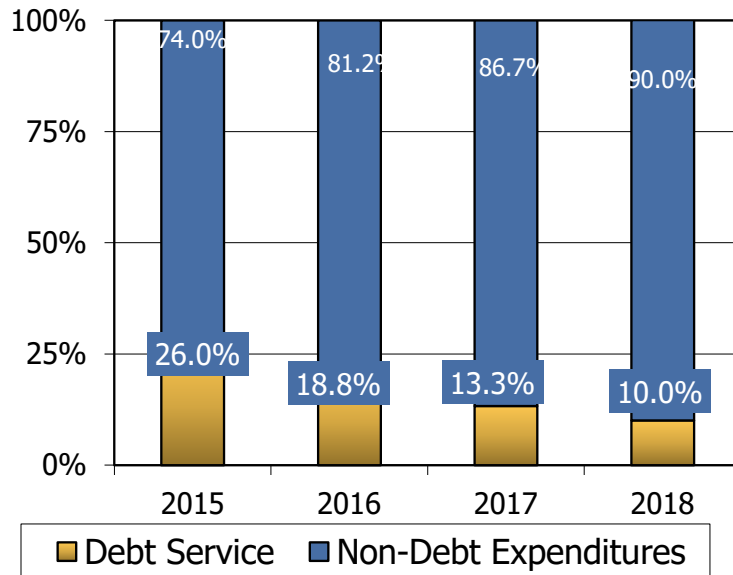
2010	2011	2012	2013	2014	2015	2016	2017	2018
N/A	N/A	N/A	N/A	N/A	26%	18.8%	13.3%	10.1%



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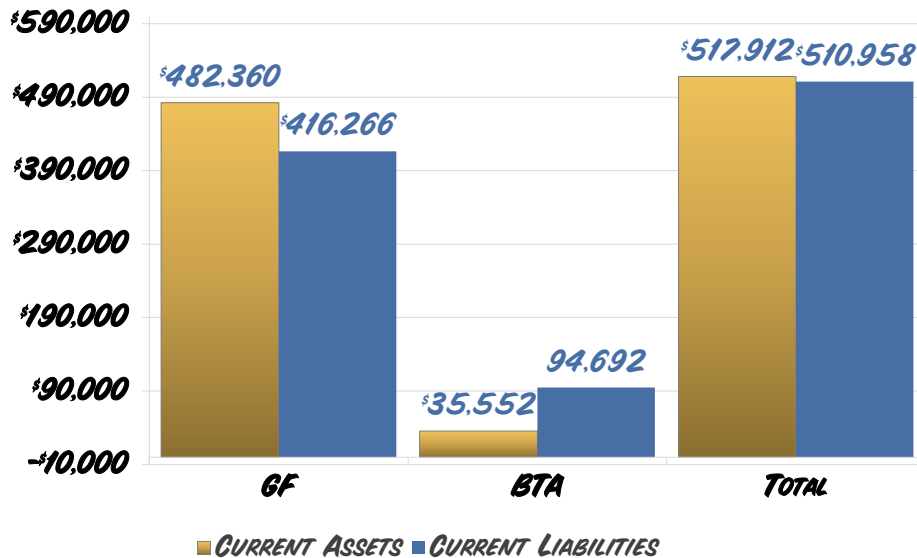
2010	2011	2012	2013	2014	2015	2016	2017	2018
N/A	N/A	N/A	N/A	N/A	26%	18.8%	13.3%	10.1%



# 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 VI’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 measures only the General Fund and business-type activities of the Enterprise Funds, the VI’s primary operating funds.

At September 30, 2018, the VI had ratios of current assets to current liabilities of \$1.01 to \$1.00. This indicates that for every \$1 of current liabilities, the VI had at least one dollar in current assets to fund them. The ratio improved with compared to the current ratio calculated in the prior year.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
0.84	0.79	0.74	0.90	0.83	1.30	0.94	0.90	0.72	1.01

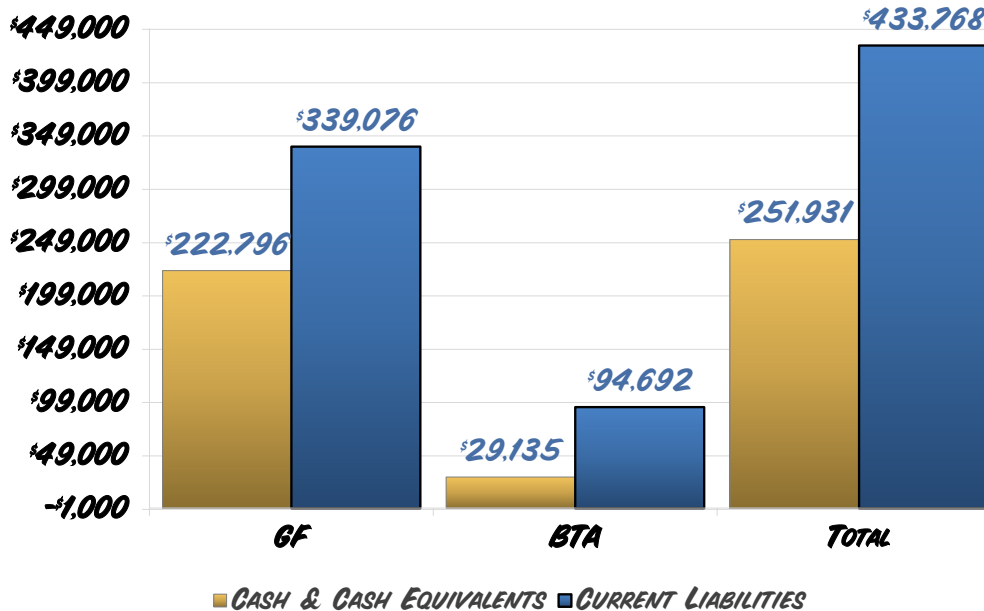


# QUICK RATIO

## HOW IS OUR SHORT-TERM CASH POSITION?

IN (000s)

CASH AND CASH EQUIVALENTS COMPARED TO CURRENT LIABILITIES



The quick ratio is another, more conservative, measure of the VI'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 ratio measures only the General Fund and business-type activities of the Enterprise Funds, the VI's primary operating funds.

At September 30, 2018, the VI had a ratio of cash and cash equivalents to current liabilities of \$0.58 to \$1.00. This indicates that for every dollar of current liabilities, the VI had 58 cents in cash and cash equivalents to fund them. This is considered an unhealthy ratio, but it does represent an improvement in the ratio of the prior year.

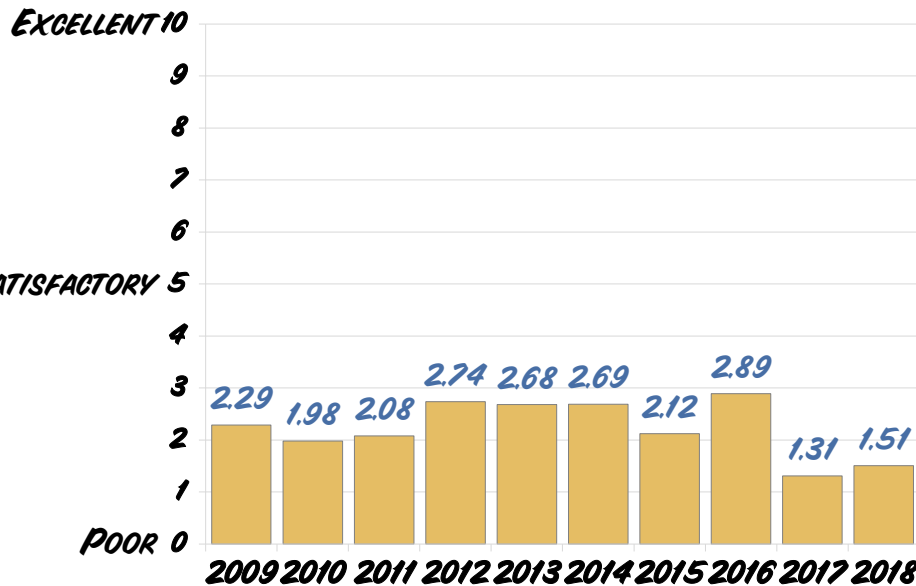
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
0.68	0.60	0.57	0.92	0.84	0.54	0.58	0.49	0.39	0.58



# 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	0.8
Financial Performance	1.8
Financial Capability	2.2

The 2018 overall reading of 1.51 indicates the evaluator’s opinion that the VI’s overall financial health and performance slightly improved during the year.

The VI is still recovering from a number setbacks that it suffered in the previous 2 fiscal years, however that recovery will stretch over several years into the future.

**FY 18 OVERALL PERFORMETER® READING: 1.51**



<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>-9.1%</i>	<i>4.0%</i>	<i>-7.1%</i>	<i>0.1%</i>	<i>-20.0%</i>	<i>-1.4%</i>
<i>INTERGENERATIONAL EQUITY</i>	<i>90.8%</i>	<i>104.5%</i>	<i>82.8%</i>	<i>100.2%</i>	<i>70.9%</i>	<i>91.3%</i>
<i>LEVEL OF UNRESTRICTED NET POSITION</i>	<i>-149.8%</i>	<i>-146.9%</i>	<i>-357.2%</i>	<i>-267.7%</i>	<i>-382.7%</i>	<i>-269.6%</i>
<i>LEVEL OF UNASSIGNED FUND BALANCE</i>	<i>-1.5%</i>	<i>-12.4%</i>	<i>-8.6%</i>	<i>-8.2%</i>	<i>-36.3%</i>	<i>-10.3%</i>
<i>REVENUE DISPERSION</i>	<i>51.8%</i>	<i>43.5%</i>	<i>45.9%</i>	<i>37.7%</i>	<i>58.1%</i>	<i>31.5%</i>
<i>BTA SELF-SUFFICIENCY</i>	<i>70.7%</i>	<i>64%</i>	<i>68.9%</i>	<i>81.2%</i>	<i>99.5%</i>	<i>59.3%</i>
<i>CAPITAL ASSET CONDITION</i>	<i>53%</i>	<i>54%</i>	<i>55%</i>	<i>54%</i>	<i>49%</i>	<i>48%</i>
<i>FINANCING MARGIN - TAXES</i>	<i>\$8.411</i>	<i>\$9.058</i>	<i>\$7.728</i>	<i>8.441</i>	<i>\$7.944</i>	<i>\$8.783</i>
<i>FINANCING MARGIN - DEBT/OBLIGATIONS</i>	<i>\$8.104</i>	<i>\$8.632</i>	<i>\$31.186</i>	<i>37.194</i>	<i>\$41.686</i>	<i>\$41.298</i>
<i>PENSION PLAN FUNDING</i>	<i>41%</i>	<i>37%</i>	<i>27%</i>	<i>20%</i>	<i>16%</i>	<i>16%</i>
<i>DEBT SERVICE LOAD</i>	<i>N/A</i>	<i>N/A</i>	<i>26%</i>	<i>18.8%</i>	<i>13.3%</i>	<i>10.1%</i>
<i>DEBT TO ASSETS</i>	<i>171%</i>	<i>176.3%</i>	<i>314.7%</i>	<i>323.3%</i>	<i>407%</i>	<i>365.3%</i>
<i>DEBT SERVICE COVERAGE</i>	<i>2.39</i>	<i>0.23</i>	<i>1.66</i>	<i>2.13</i>	<i>0.23</i>	<i>0.54</i>
<i>CURRENT RATIO</i>	<i>0.83</i>	<i>1.3</i>	<i>0.94</i>	<i>0.90</i>	<i>0.72</i>	<i>1.01</i>
<i>QUICK RATIO</i>	<i>0.84</i>	<i>0.54</i>	<i>0.58</i>	<i>0.49</i>	<i>0.39</i>	<i>0.58</i>
<i>OVERALL PERFORMETER READING</i>	<i>2.68</i>	<i>2.69</i>	<i>*2.12</i>	<i>*2.89</i>	<i>1.31</i>	<i>1.51</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.

	2012	2013	2014	2015	2016	2017	2018
Number of F.S. Opinion Qualifications/Exceptions	7	6	9	16	19	9	13
Number of Major Federal Program Qualifications/Exceptions	2	3	6	9	9	10	7
Number of F.S. Findings							
A. Internal Control and Compliance	-	0	0	0	0	0	0
B. Internal Control Only	8	8	12	12	12	13	13
C. Compliance Only	0	0	2	3	3	4	4
TOTAL	8	8	14	15	15	17	17
Percentage of Findings Repeated	100% (estimate)	100% (estimate)	100% (estimate)	100% (estimate)	100% (estimate)	100% (estimate)	100% (estimate)
Number of A-133 Findings	13	14	46	57	56	71	57
A. Internal Control and Compliance	-	0	0	0	0	0	0
B. Internal Control Only	-	0	0	0	0	0	0
C. Compliance Only	13	14	46	57	56	71	57
TOTAL							
Percentage of A-133 Findings Repeated	Unable to determine	Unable to determine	100%	84%	(100% estimate)	(100% estimate)	(100% estimate)
Number of months after Y/E the F.S. were Released	16	9	12	9	9	24	21
Number of Qualifications/Exceptions Related to C.U.	5	4	3	6	5	3	4
\$ of Questioned Costs-Current Year	\$3,328,464	\$0	\$1,172,427	\$348,349	\$0	\$163,394	\$283,945
\$ of Questioned Costs- Cumulative	\$5,730,775	\$0	Unable to determine	Unable to determine	Unable to determine	Unable to determine	Unable to determine
\$ of Questioned Costs Resolved – Current Year	\$833,186	\$5,730,775	Unable to determine	Unable to determine	Unable to determine	Unable to determine	Unable to determine



# THANK YOU!

- We would like to commend and thank the Government of the U.S. Virgin Island'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 Virgin Island'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.