



# *REPUBLIC OF THE MARSHALL 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 Republic of the Marshall 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 the RMI'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 RMI 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 the RMI's performance and condition
- The analysis is an overall rating of the RMI 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

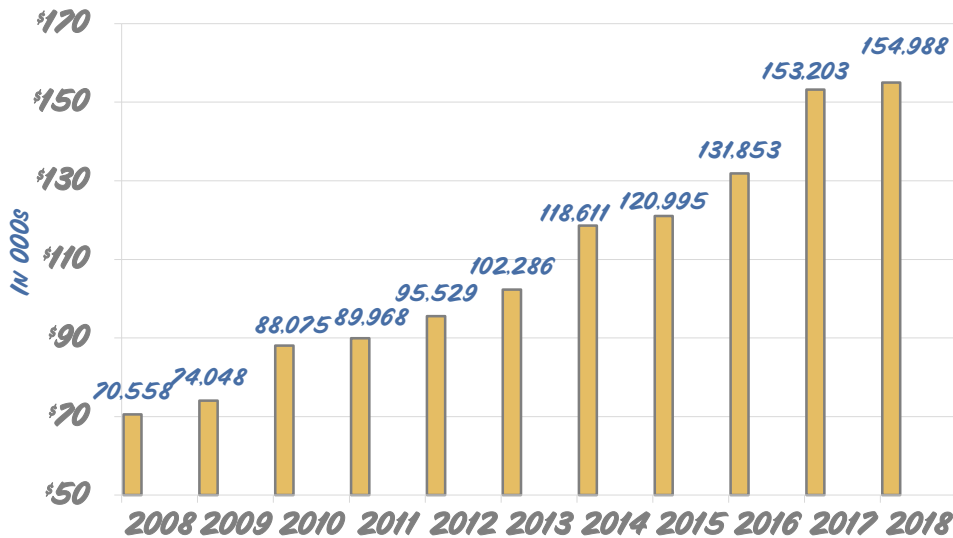
*DID OUR OVERALL FINANCIAL CONDITION IMPROVE, DECLINE OR REMAIN STEADY OVER THE PAST YEAR?*

Net position includes all assets of the RMI, 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 total liabilities, including long-term debt, and deferred inflows.

For the year ended September 30, 2018, total net position increased by \$1.8 million or 1.2% from the prior year.

This is indicative of the RMI reporting revenues that exceeded its expenses by \$1.8 million for this period, and represents an increase in the overall total net position of the RMI when compared to prior period, and also represents 10 consecutive years of improvements in this ratio.

**NET POSITION AT YEAR END**



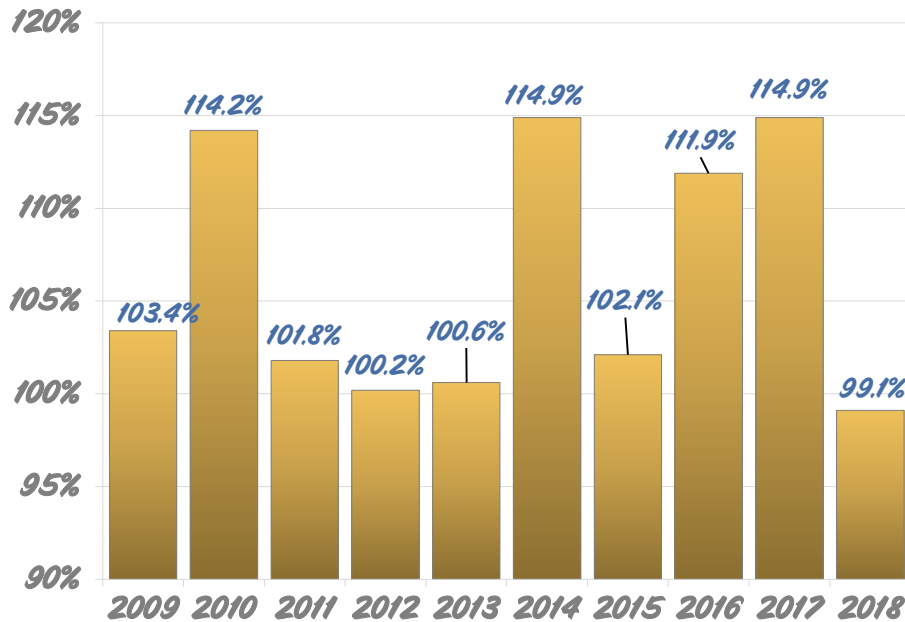
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
5%	19%	2%	8%	7%	16%	2%	9%	16%	1.2%



# 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, RMI funded 99.1% of their expenses with current year revenues, which is a near excellent ratio but a decrease when compared to the ratio of the prior year.

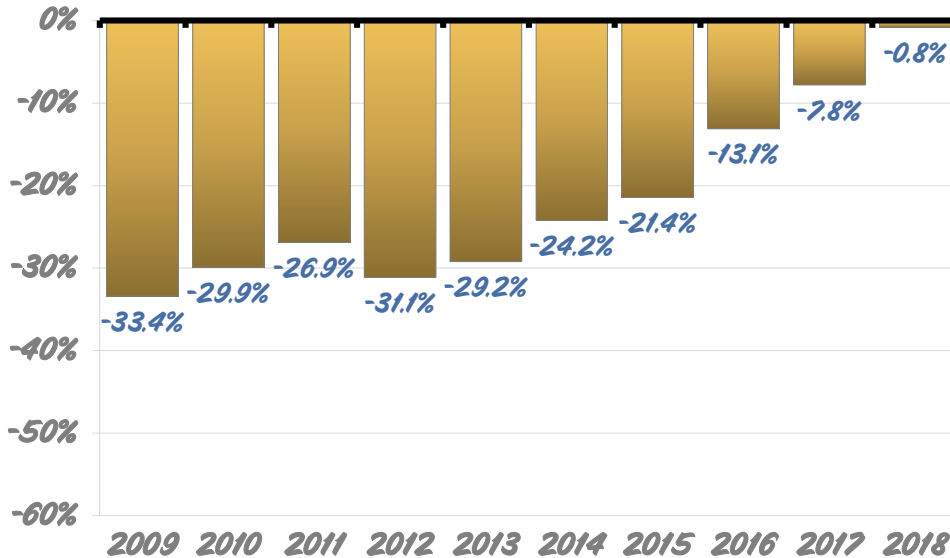
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
103.4%	114.2%	101.8%	100.2%	100.6%	114.9%	102.1%	111.9%	114.9%	99.1%



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

For the year ended September 30, 2018, the RMI's total unrestricted net position (deficit) approximated a deficit of \$1.16 million, or 0.8% of annual total revenues, which represents continuing improvement in the overall trend of reductions in the deficit-to-revenue ratio of prior periods.

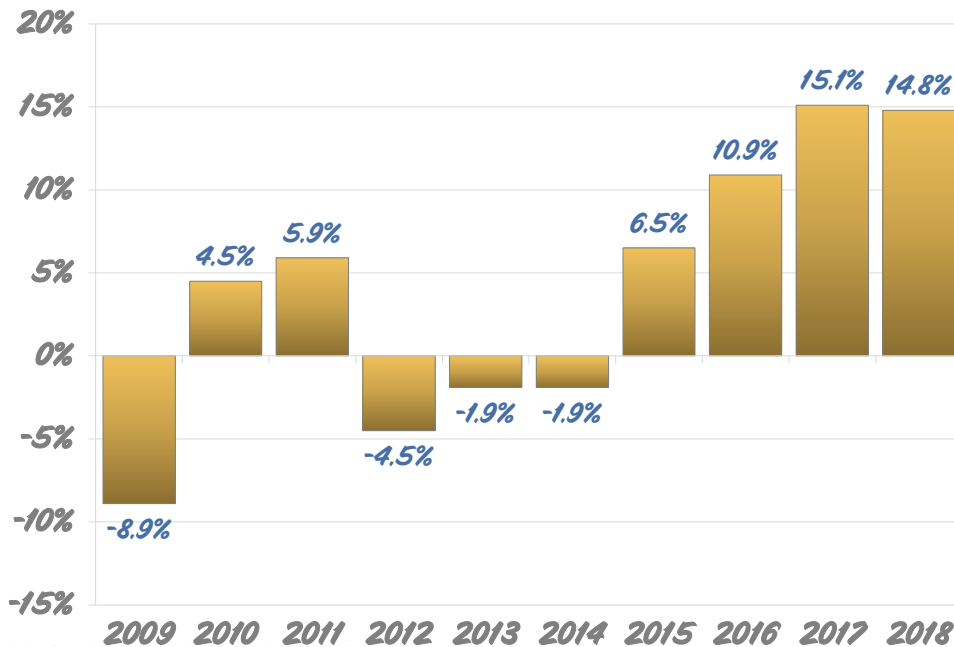
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-33.4%	-29.9%	-26.9%	-31.1%	-29.2%	-24.2%	-21.4%	-13.1%	-7.8%	-0.8%



# 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 RMI 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 RMI's unassigned fund balance of the General Fund was equal to 14.8% of annual General Fund revenues. This represents a slight decrease when compare to the prior year ratio.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-8.9%	4.5%	5.9%	-4.5%	-1.9%	-1.9%	6.5%	10.9%	15.1%	14.8%

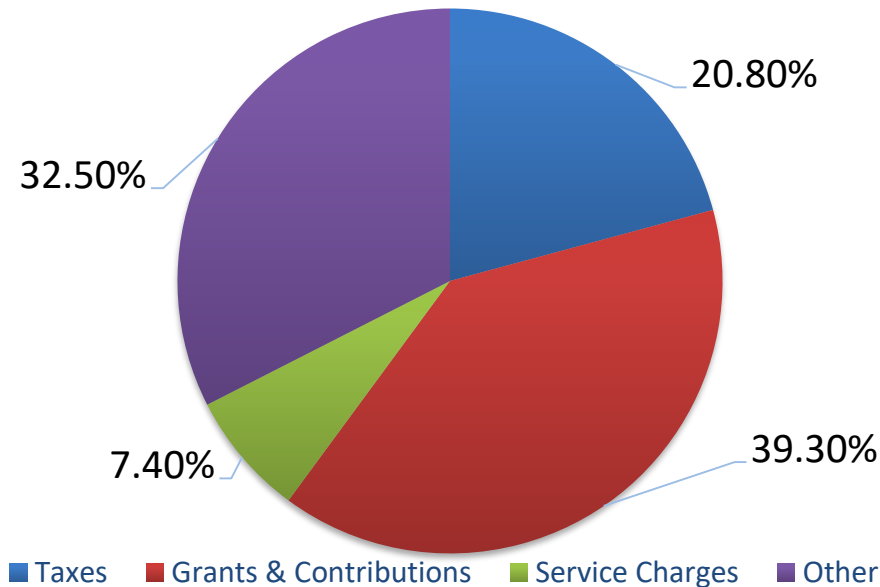




# REVENUE DISPERSION

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

For the year ended September 30, 2018, the RMI had direct control over 33% of its revenues. This ratio indicates the RMI has some exposure, as do most insular governments, to financial difficulties due to reliance on non-controlled revenue (67%).

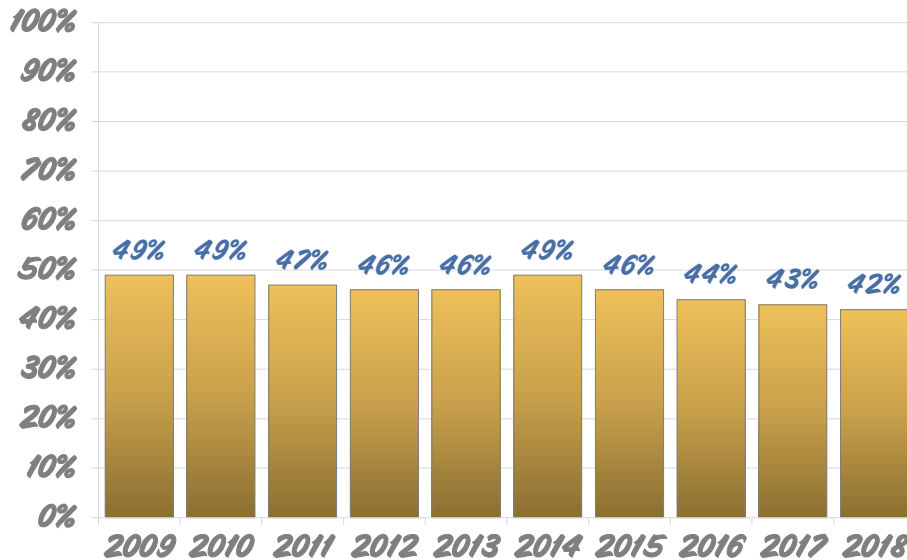
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
35.3%	34.6%	37.9%	39.5%	35.1%	32.8%	36.1%	32.2%	28.9%	33.0%



# 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 a significant amount of capital assets.

At September 30, 2018, the RMI's depreciable capital assets amounted to \$193 million while accumulated depreciation totaled \$113 million. This indicates that, on the average, the RMI's capital assets have 42% of their useful lives remaining. This is comparable to the ratio of the prior period.

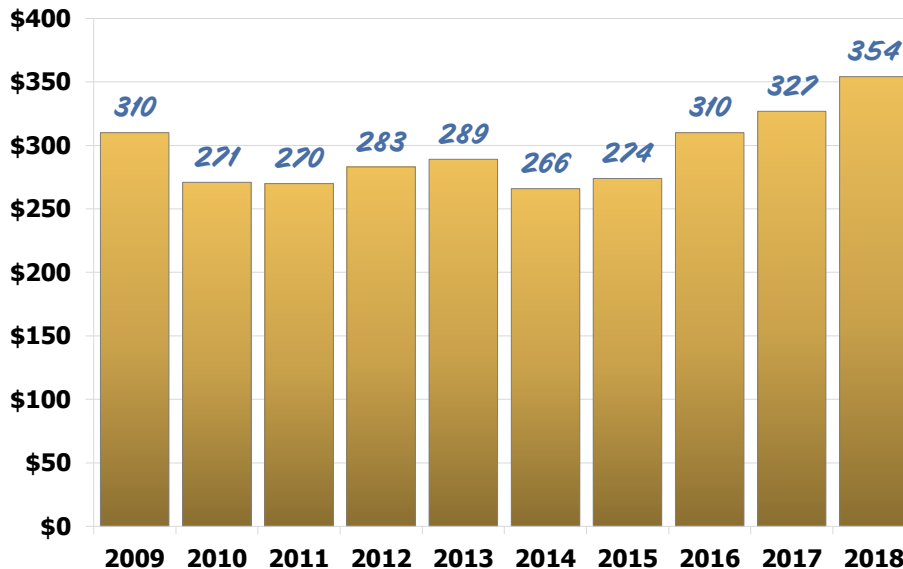
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
49%	49%	47%	46%	46%	49%	46%	44%	43%	42%



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

For the year ended September 30, 2018, total taxes amounted to \$23.8 million or \$354 per capita. This indicates a relatively low tax burden on the citizens when compared to other insular governments, and although slightly higher this year, it does remain relatively consistent with ratios calculated in prior periods.

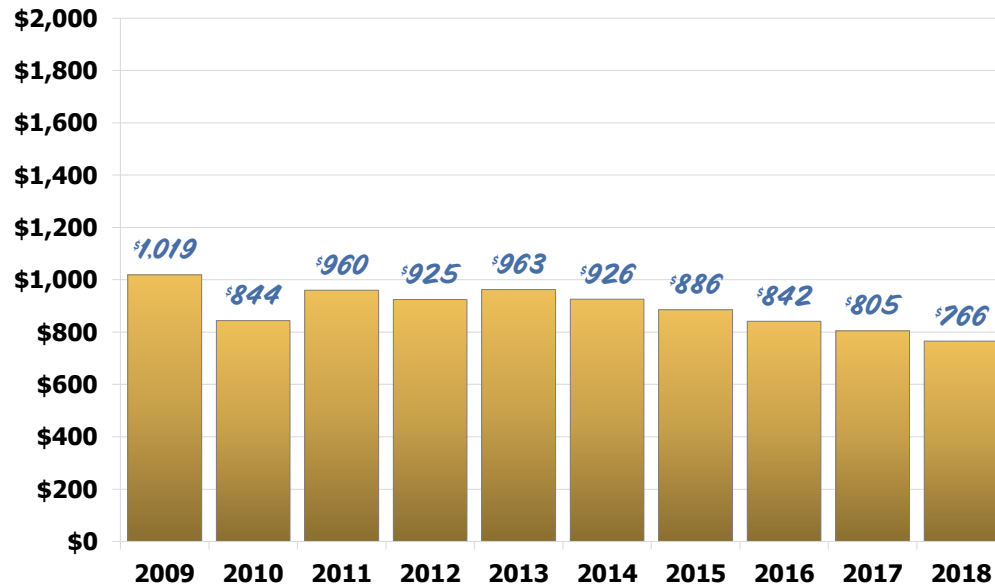
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$310	\$271	\$270	\$283	\$289	\$266	\$274	\$310	\$327	\$354



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

For the year ended September 30, 2018, the RMI had \$51.4 million of long-term debt, or \$766 per capita, which represents a relatively low debt burden on its citizens when compared to other insular governments. The ratio remains relatively consistent with the ratios of the past several periods, but continues a multi year decrease in debt per capita.

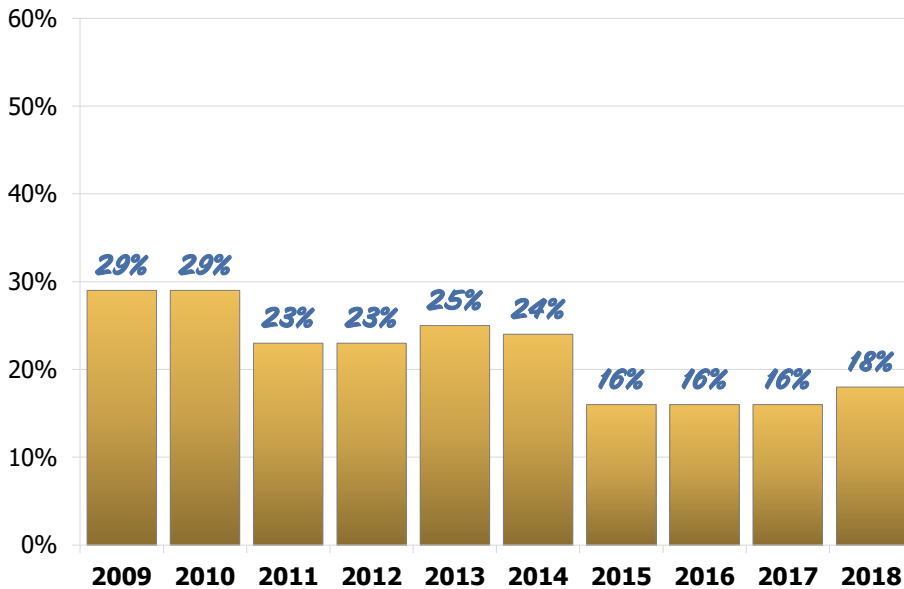
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
\$1,019	\$844	\$960	\$925	\$963	\$926	\$886	\$842	\$805	\$766



# PENSION PLAN FUNDING RATIO

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

**Pension Plan Assets Fair Value as a Percentage of the Actuarial Accrued Liability for Pension Benefits**



The pension funding ratio compares the actuarial fair value of the pension plan's assets to the actuarial accrued liability for pension benefits. A percentage less than 100% indicates the plan is under-funded at the valuation date. Although the RMI 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 (Oct 2017), the RMI's pension plan assets were 18% of the accrued pension benefit liability, indicating the plan was less than 1/5 funded, and an indicator of potential long-term cash demands to fund the future needs of the plan. However, the funded ratio of the plan did increase when compared to its previous evaluation.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
29%	29%	23%	23%	25%	24%	16%	16%	16%	18%



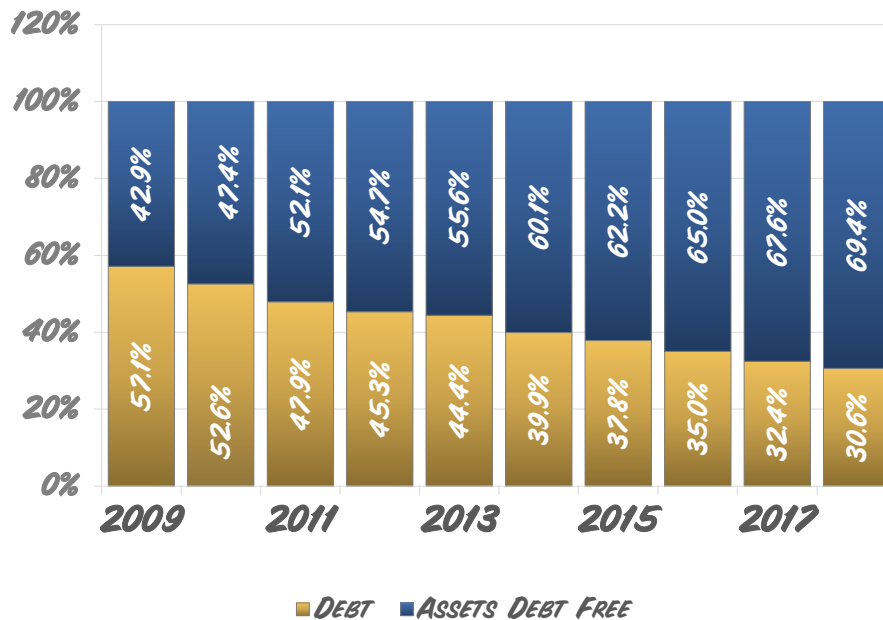
# DEBT TO ASSETS

## WHO REALLY OWNS THE RMI?

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

At September 30, 2018, 30.6% of the RMI's \$223.4 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 the RMI owns, it owes 30.6 cents of that dollar to others. This ratio is relatively consistent with those of the prior periods, although a continuation of improvement when compared to the ratios of the prior periods.

PERCENTAGE OF DEBT TO ASSETS - 2018



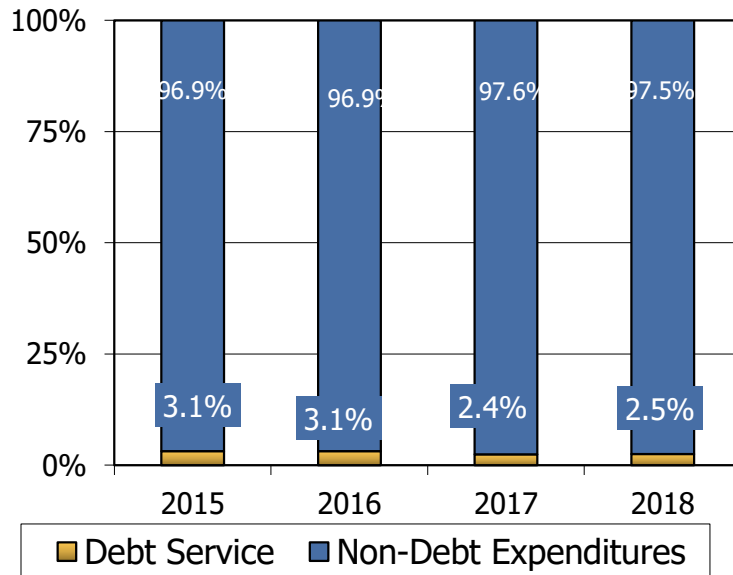
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
57.1%	52.6%	47.9%	45.3%	44.4%	39.9%	37.8%	35.0%	32.4%	30.6%



# 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, RMI's total non-capital expenditures amounted to \$136.7 million, of which \$3.4 million (or 2.5%), 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 RMI spent on non-capital items, 2.5 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	3.1%	3.1%	2.4%	2.5%

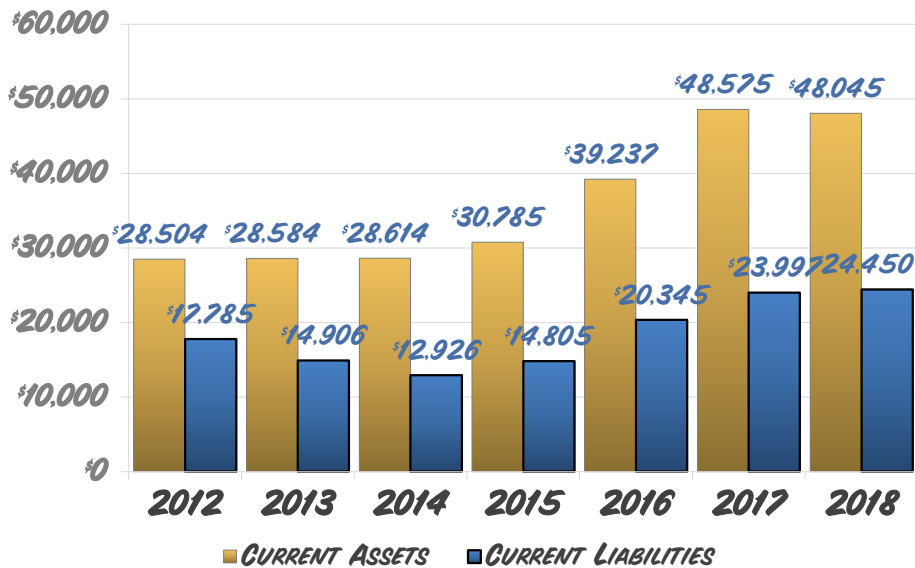




# CURRENT RATIO

*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 RMI'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 only includes the General Fund, RMI's main operating fund.

At September 30, 2018, the RMI had a General Fund ratio of current assets to current liabilities of 1.97 to 1. This indicates that for every dollar of current liabilities, the RMI had \$1.97 to fund them. This is a slight decline in the ratio of the prior period, and is considered just slightly below satisfactory.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1.10	1.10	1.95	1.60	1.92	2.21	2.08	1.93	2.02	1.97

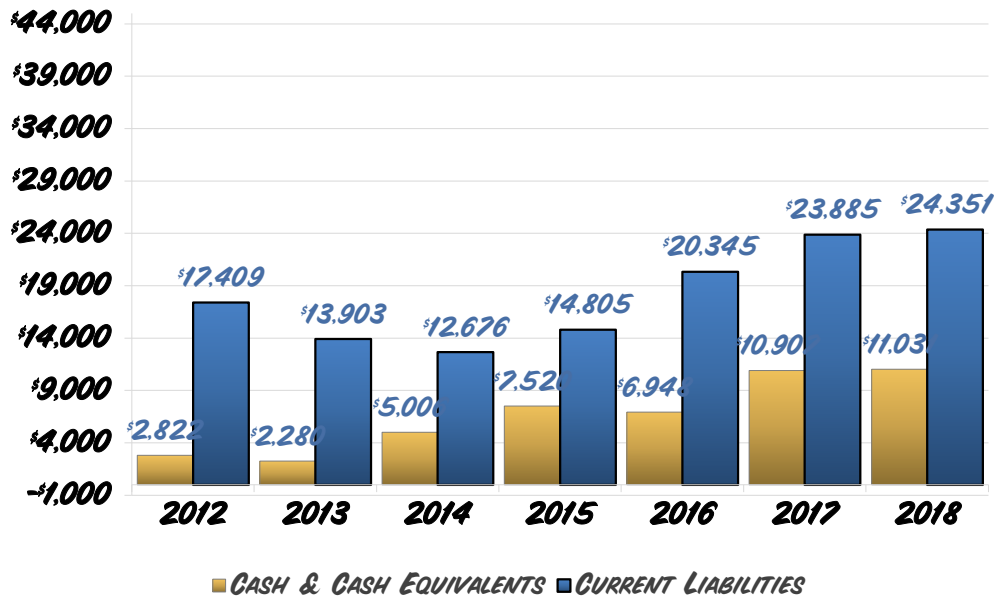




# QUICK RATIO

## 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 RMI'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 only includes the General Fund, RMI's main operating fund.

At September 30, 2018, the RMI had a General Fund ratio of cash and cash equivalents to current liabilities of 0.45 to 1. This indicates that for every dollar of current liabilities, the RMI had 45 cents in cash and cash equivalents to fund them. This is considered an unfavorable ratio and it represents a slight decline when compared the prior period ratio.

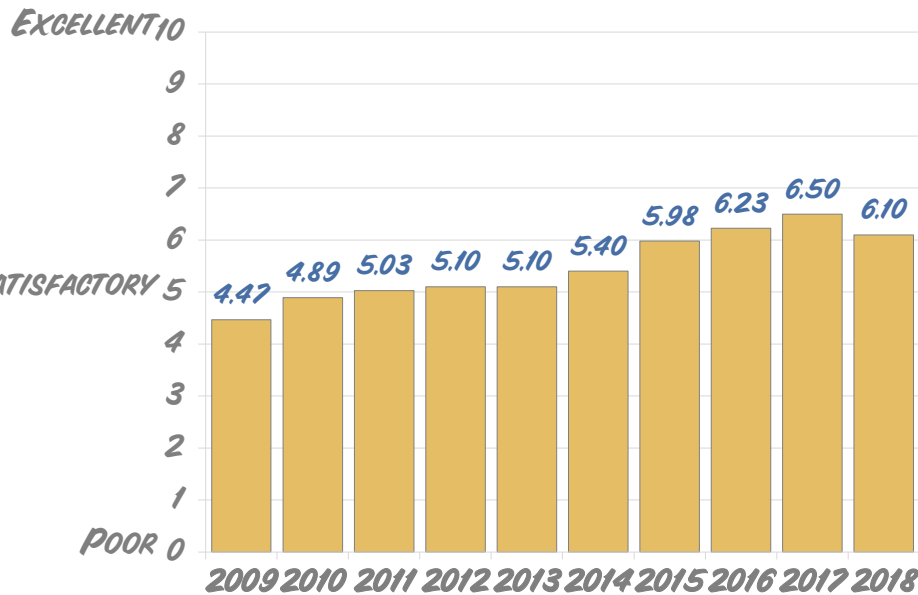
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
0.09	0.10	0.40	0.16	0.16	0.39	0.51	0.34	0.46	0.45



# 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	4.3
Financial Performance	7.0
Financial Capability	7.7

The 2018 overall reading of 6.10 indicates the evaluator's opinion that the RMI's overall financial health and performance declined when compared to the prior period.

Although the RMI's overall financial health declined slightly during the 2018 fiscal year, it remains 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 high intergenerational equity, and its low debt to assets ratio. This becomes the eight consecutive year that the RMI has scored above a 5.

**FY 18 OVERALL PERFORMETER® READING: 6.10**



<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>7.1%</i>	<i>16%</i>	<i>2.0%</i>	<i>9.0%</i>	<i>16.2%</i>	<i>1.2%</i>
<i>INTERGENERATIONAL EQUITY</i>	<i>100.6%</i>	<i>114.9%</i>	<i>102.1%</i>	<i>111.9%</i>	<i>114.9%</i>	<i>99.1%</i>
<i>LEVEL OF UNRESTRICTED NET POSITION</i>	<i>-29.2%</i>	<i>-24.2%</i>	<i>-21.4%</i>	<i>-13.1%</i>	<i>-7.8%</i>	<i>-0.8%</i>
<i>LEVEL OF UNASSIGNED FUND BALANCE</i>	<i>1.9%</i>	<i>-1.9%</i>	<i>6.5%</i>	<i>10.9%</i>	<i>15.1%</i>	<i>14.8%</i>
<i>REVENUE DISPERSION</i>	<i>35.1%</i>	<i>32.8%</i>	<i>36.1%</i>	<i>32.2%</i>	<i>28.9%</i>	<i>33%</i>
<i>CAPITAL ASSET CONDITION</i>	<i>46%</i>	<i>49%</i>	<i>46%</i>	<i>44%</i>	<i>43%</i>	<i>42%</i>
<i>FINANCING MARGIN - TAXES</i>	<i>\$289</i>	<i>\$266</i>	<i>\$274</i>	<i>\$310</i>	<i>\$327</i>	<i>\$354</i>
<i>FINANCING MARGIN - DEBT/OBLIGATIONS</i>	<i>\$963</i>	<i>\$926</i>	<i>\$886</i>	<i>\$842</i>	<i>\$805</i>	<i>\$766</i>
<i>PENSION PLAN FUNDING</i>	<i>23%</i>	<i>24%</i>	<i>16%</i>	<i>16%</i>	<i>16%</i>	<i>18%</i>
<i>DEBT SERVICE LOAD</i>	<i>N/A</i>	<i>N/A</i>	<i>3.1</i>	<i>3.1%</i>	<i>2.4%</i>	<i>2.5%</i>
<i>DEBT TO ASSETS</i>	<i>44.4%</i>	<i>39.9</i>	<i>37.8%</i>	<i>35%</i>	<i>32.4%</i>	<i>30.6%</i>
<i>CURRENT RATIO</i>	<i>1.92</i>	<i>2.21</i>	<i>2.08</i>	<i>1.93</i>	<i>2.02</i>	<i>1.97</i>
<i>QUICK RATIO</i>	<i>0.16</i>	<i>0.39</i>	<i>0.51</i>	<i>0.34</i>	<i>0.46</i>	<i>0.45</i>
<i>OVERALL PERFORMETER READING</i>	<i>5.12</i>	<i>5.35</i>	<i>*5.98</i>	<i>*6.23</i>	<i>*6.50</i>	<i>6.10</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.



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of F.S. Opinion Qualifications/Exceptions	0	0	0	0	0	0	0	0	0	0
Number of Major Federal Program Qualifications/Exceptions	3	1	3	2	2	2	2	2	1	2
Number of F.S. Findings	0	1	0	0	0	0	1	0	0	0
A. Internal Control and Compliance	1	4	2	4	7	6	6	1	3	2
B. Internal Control Only	0	0	0	0	1	3	1	2	0	0
C. Compliance Only	1	5	2	4	8	9	8	3	3	2
TOTAL										
Percentage of Findings Repeated	0%	20%	50%	75%	75%	78%	88%	67%	33%	50%
Number of Single Audit Findings										
A. Internal Control and Compliance	11	6	12	7	3	4	12	9	8	9
B. Internal Control Only	0	1	0	0	4	0	0	0	0	0
C. Compliance Only	0	0	0	0	0	0	0	0	0	0
TOTAL	11	7	12	7	7	4	12	9	8	9
Percentage of Single Audit Findings Repeated	9%	14%	41.7%	100%	100%	100%	42%	89%	100%	75%
Number of months after Y/E the F.S. were Released	9	9	17	10	12	17	14	9	9	9
Number of Qualifications/Exceptions Related to C.U.	0	0	0	0	0	0	0	0	0	0
\$ of Questioned Costs-Current Year	\$1,360,234	\$2,243,301	\$3,156,810	\$35,857	\$71,294	\$318,321	\$626,246	\$67,261	\$188,885	\$398,764
\$ of Questioned Costs- Cumulative	\$2,716,037	\$4,249,153	\$7,405,963	\$7,441,820	\$2,355,004	\$2,673,325	\$3,297,321	\$1,917,560	\$1,951,064	\$2,518,629
\$ of Questioned Costs Resolved – Current Year	\$421,559	\$710,185	\$1,196,066	\$0	\$5,158,110	\$0	\$1,650	\$1,447,662	\$155,381	\$0

# ***THANK YOU!***

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