



# CHUUK

## FISCAL YEAR 2016

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, 2016



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 1-10
- The overall reading is a barometer of Chuuk's financial health and performance

# *HOW TO USE THE PERFORMETER®*

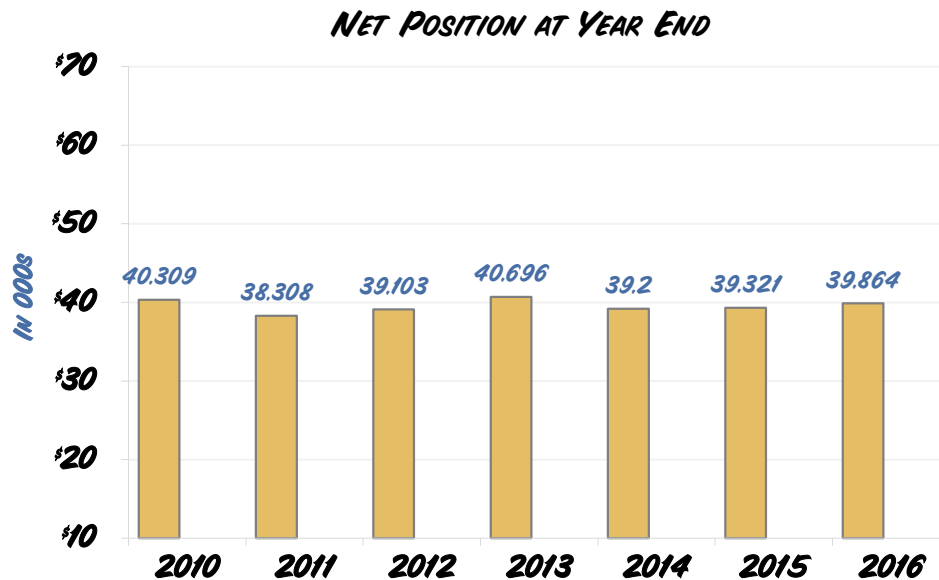
- Use the individual ratios to identify financial warning signals
- Use the overall rating as a collective benchmark of financial health and success of Chuuk as a whole
- Use the comparisons to prior years to monitor trends in financial indicators

## ***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.

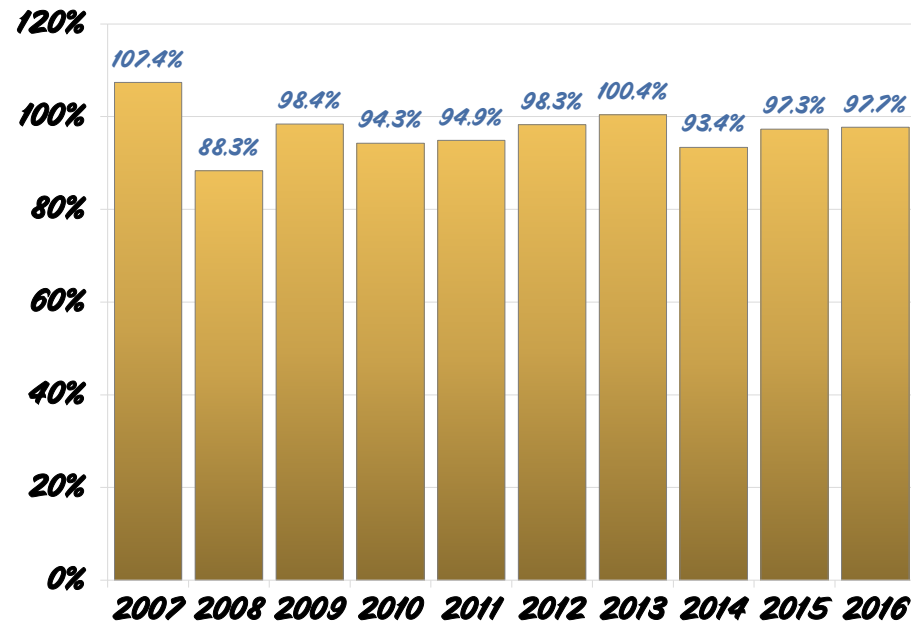
For the year ended September 30, 2016, total net position increased by \$259 thousand or 0.7% from the prior year. This represents an increase in net position when compared to previous year.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
-12.9%	-26.9%	-1.1%	-12.2%	-5.0%	2.1%	4.1%	-3.7%	0.3%	0.7%

# 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.

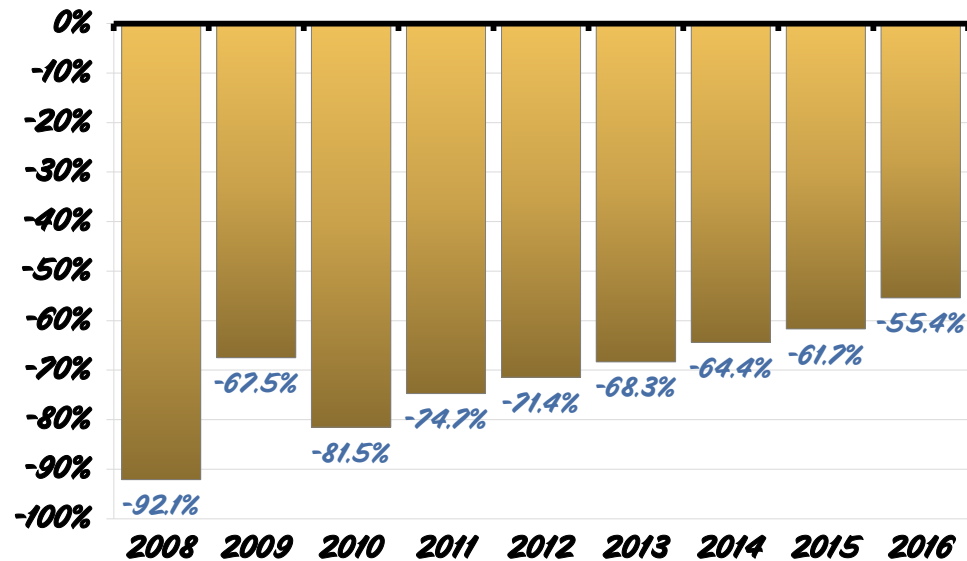
For the year ended September 30, 2016, Chuuk funded 97.7% of their expenses with current year revenues, which is considered an above satisfactory ratio, and represents a slight increase in the ratio from the prior year.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
107.4%	88.3%	98.4%	94.3%	94.9%	98.3%	100.4%	93.4%	97.3%	97.7%

# 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.

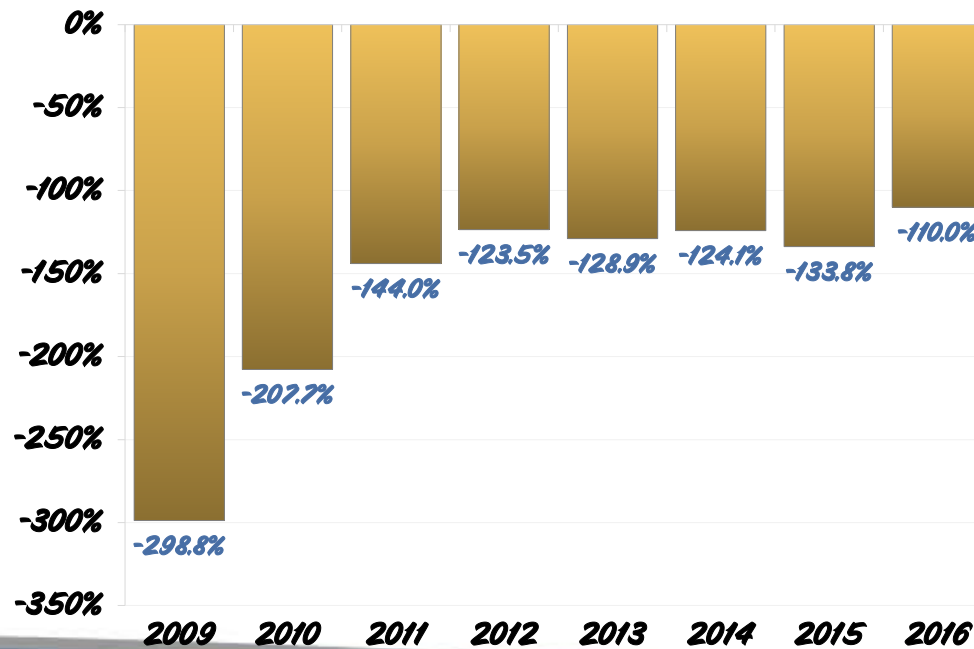
For the year ended September 30, 2016, Chuuk's total unrestricted net position (deficit) was a deficit of \$21 million, which is equivalent to 55.4% of annual total revenues, and is typically considered an unsatisfactory financial indicator. The amount of the unrestricted net asset deficit is relatively consistent with the prior year, although a slight improvement via the reduction of the overall deficit.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
-81.6%	-92.1%	-67.5%	-81.5%	-74.7%	-71.4%	-68.3%	-64.4%	-61.7%	-55.4%

# 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 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, 2016, Chuuk's unassigned fund balance (deficit) of the General Fund was a deficit of \$10 million, or the equivalent of 110.2% of General Fund revenues. This is considered a very unfavorable ratio, but represents an increase in the ratio of the prior year.

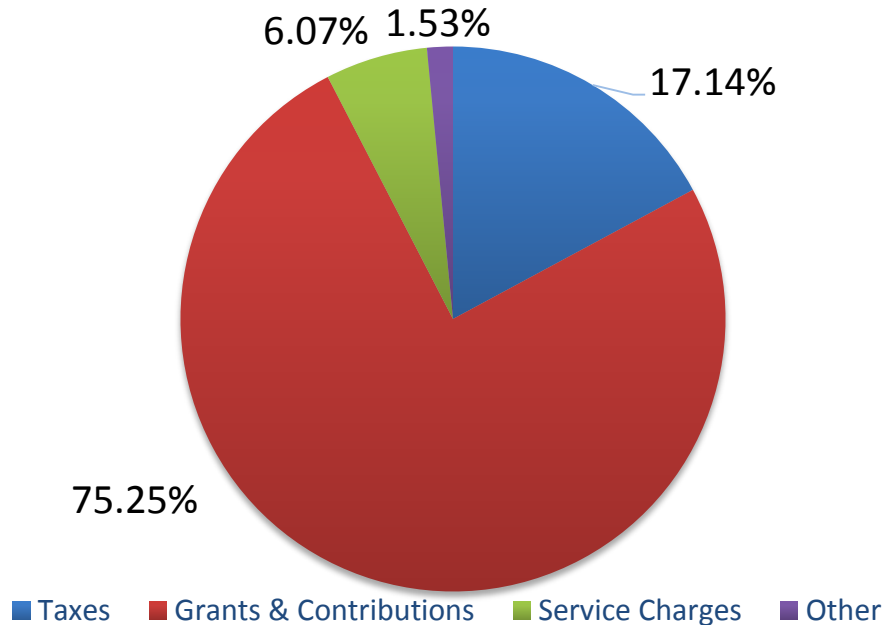
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
-326.5%	-372.8%	-298.9%	-207.7%	-144.3%	-123.5%	-128.9%	-124.1%	-133.8%	-110.2%



# REVENUE DISPERSION

*HOW HEAVILY ARE WE RELYING ON REVENUE SOURCES WE CAN'T DIRECTLY CONTROL?*

**2016 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.

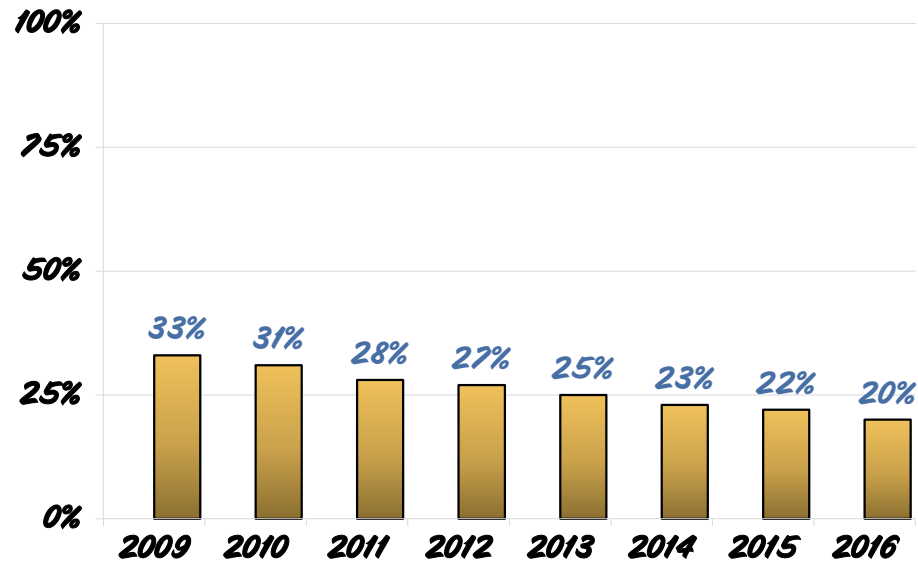
For the year ended September 30, 2016, Chuuk had direct control over 12% of its revenues (Excise taxes and charges for services). This ratio indicates Chuuk has significant exposure, as do most insular governments, to financial difficulties due to reliance on non-controlled revenue (88%).

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
7.9%	10.2%	8.9%	10.2%	9.9%	12.3%	11.9%	11.3%	11.5%	12%

# CAPITAL ASSET CONDITION

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

*PERCENTAGE OF CAPITAL ASSETS' USEFUL LIFE REMAINING - 2016*



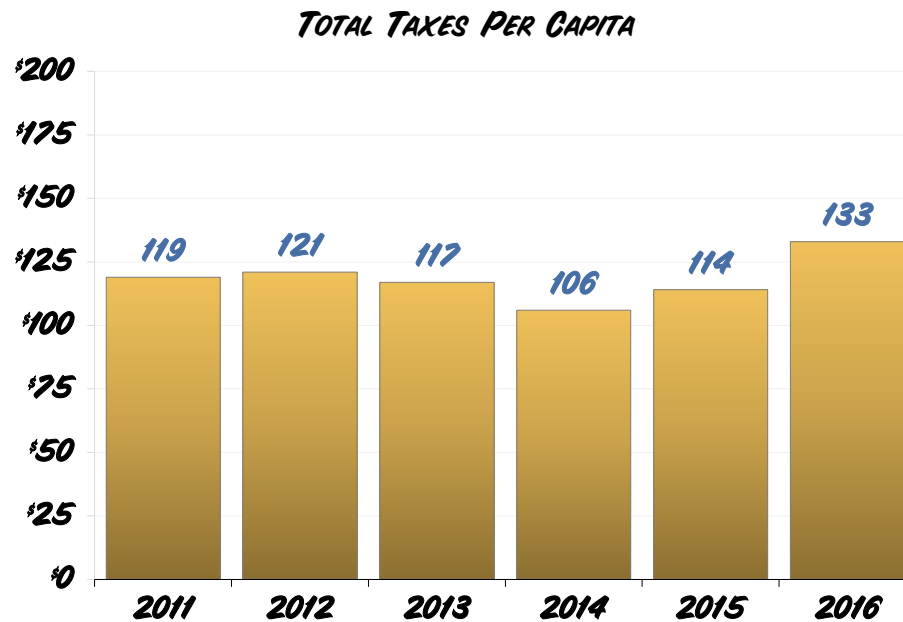
The capital asset condition ratio compares capital assets cost to accumulated depreciation to determine the overall percentage of useful life remaining. A low percentage could indicate an upcoming need to replace significant capital assets.

At September 30, 2016, Chuuk's depreciable capital assets amounted to \$105.2 million while accumulated depreciation totaled \$84 million. This indicates that, on the average, Chuuk's capital assets have 20% of their useful lives remaining. This is considered an unfavorable financial indicator, and continues a decline in the ratio since FY 2004.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
66%	64%	33%	31%	28%	27%	25%	23%	22%	20%

# FINANCING MARGIN - TAXES

*WILL OUR CITIZENS BE WILLING TO PAY INCREASED TAXES FOR OPERATIONS OR CAPITAL IMPROVEMENTS, IF NEEDED?*



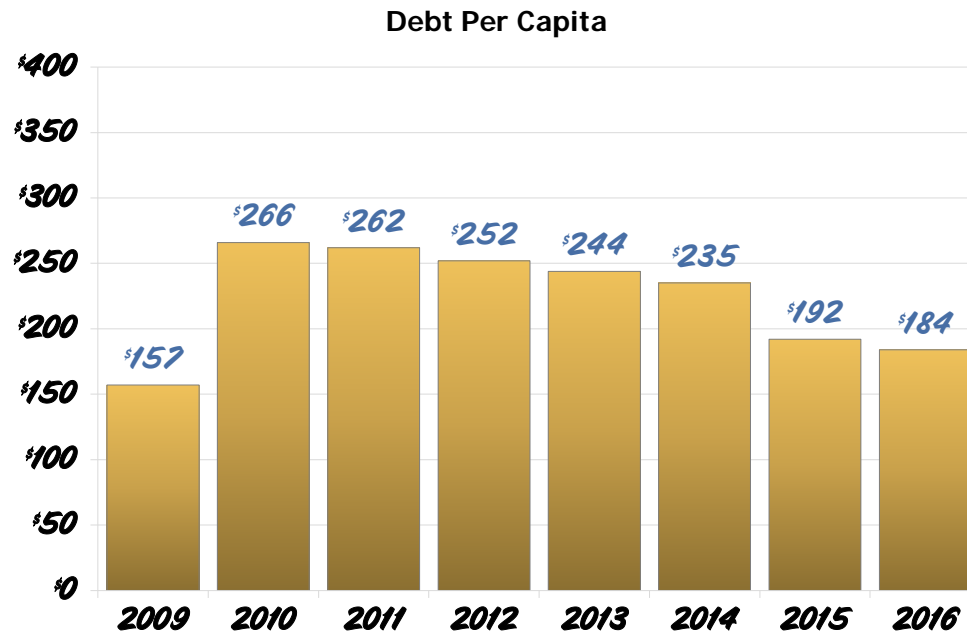
The financial ratio of taxes per capita is an indication of Chuuk's tax burden on its citizens and other taxpayers. The ratio includes all taxes, including gross receipts, income and other taxes.

For the year ended September 30, 2016, total taxes amounted to \$6.5 million or \$133 per capita. This indicates a very low tax burden when compared to other insular governments, and is considered an extremely favorable ratio.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
\$72	\$72	\$80	\$115	\$119	\$121	\$117	\$106	\$114	\$133

# FINANCING MARGIN - DEBT

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



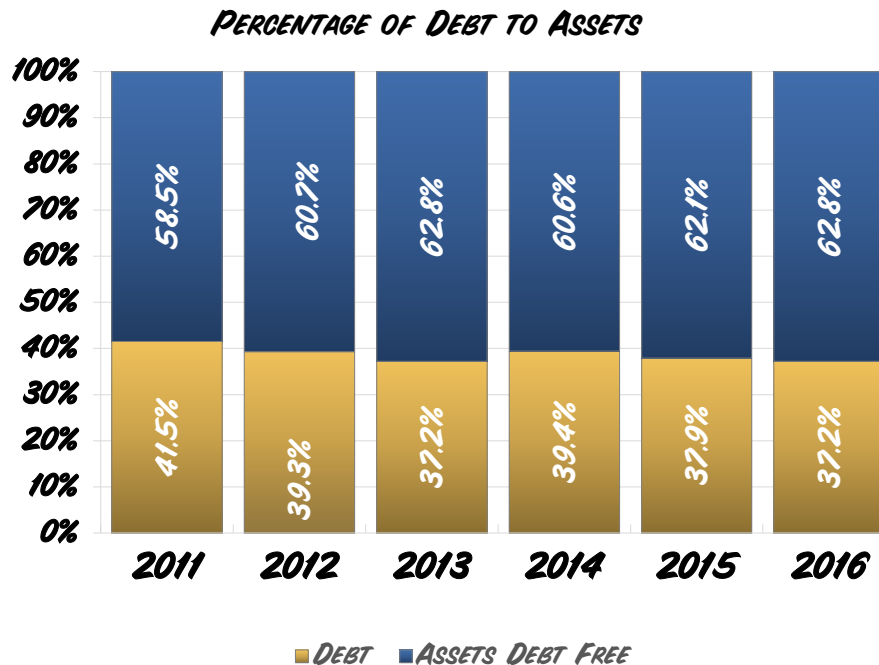
The financial ratio of debt per capita is an indication of Chuuk's debt burden on its citizens and other taxpayers.

For the year ended September 30, 2016, Chuuk had \$8.9 million of long-term debt or \$184. 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 a very favorable ratio.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
\$125	\$152	\$157	\$266	\$262	\$252	\$244	\$235	\$192	\$184

# 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.

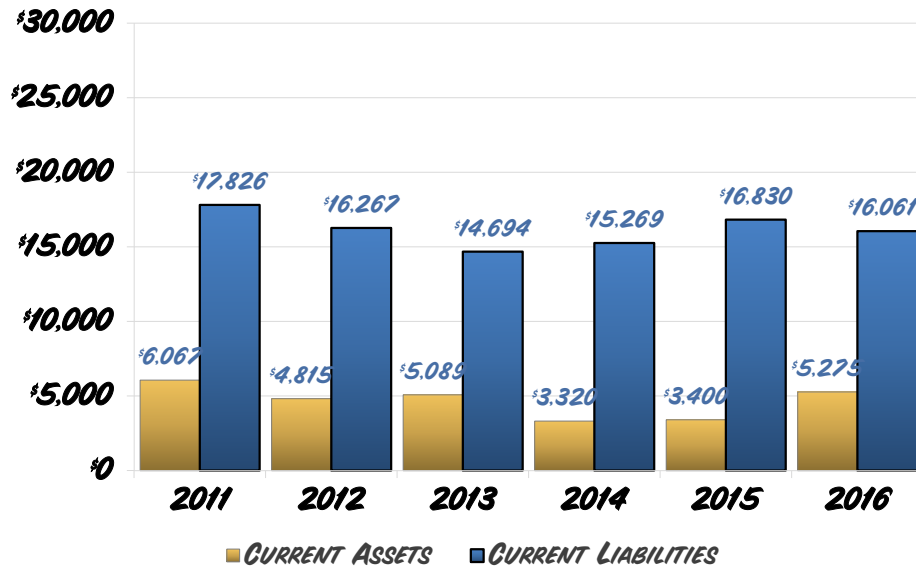
At September 30, 2016, 37.2% of Chuuk's \$63.5 million of total assets were funded with debt or other obligations. This is a relatively satisfactory financial indicator and indicates that for each dollar of assets Chuuk owns, it owes 37.2 cents of that dollar to other. This is a slight improvement in the ratio when compared to prior year ratio.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
30.2%	28.9%	35.0%	42.0%	41.5%	39.3%	37.2%	39.4%	37.9%	37.2%

# CURRENT RATIO

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

**CURRENT ASSETS COMPARED TO CURRENT LIABILITIES**



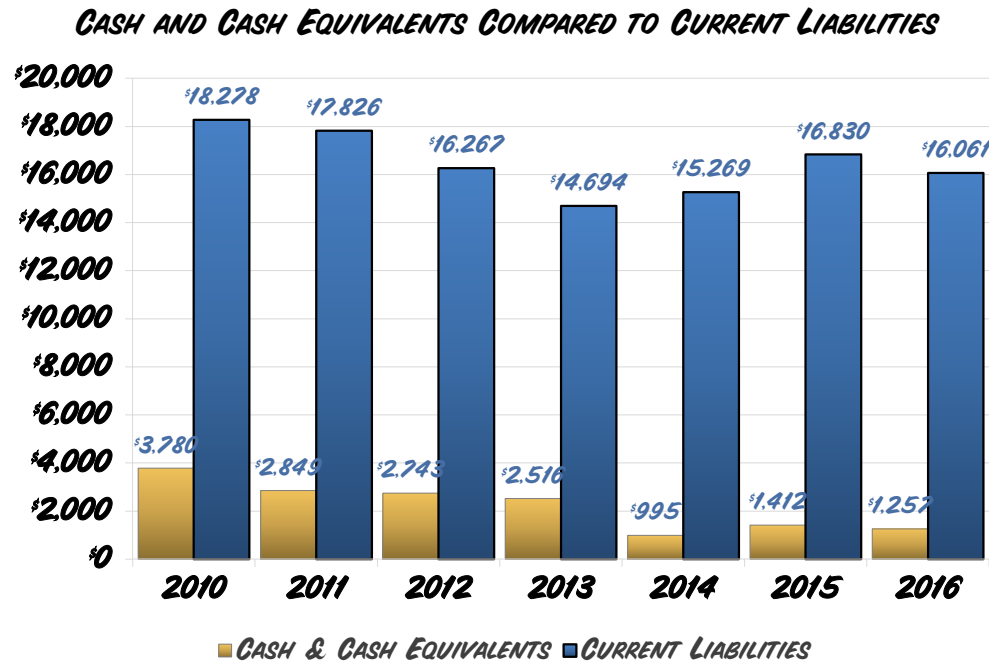
The current ratio is one measure of CHUUK’s ability to pay its short-term obligations. The current ratio compares total current assets and liabilities. A current ratio of 2.00 to 1 indicates good current liquidity and an ability to meet the short-term obligations. This ratio includes only the General Fund (Chuuk’s primary operating fund) and Chuuk’s proprietary type enterprise funds.

At September 30, 2016, Chuuk’s General Fund had a ratio of current assets to current liabilities of 0.33 to 1. This indicates that Chuuk has 33 cents of current assets to fund each dollar of current liabilities. This is considered an unfavorable ratio and an increase of the ratio of the prior year.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
.15	.32	.33	.32	.34	.30	.35	.22	.20	.33

# QUICK RATIO

## HOW IS OUR SHORT-TERM CASH POSITION?



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.

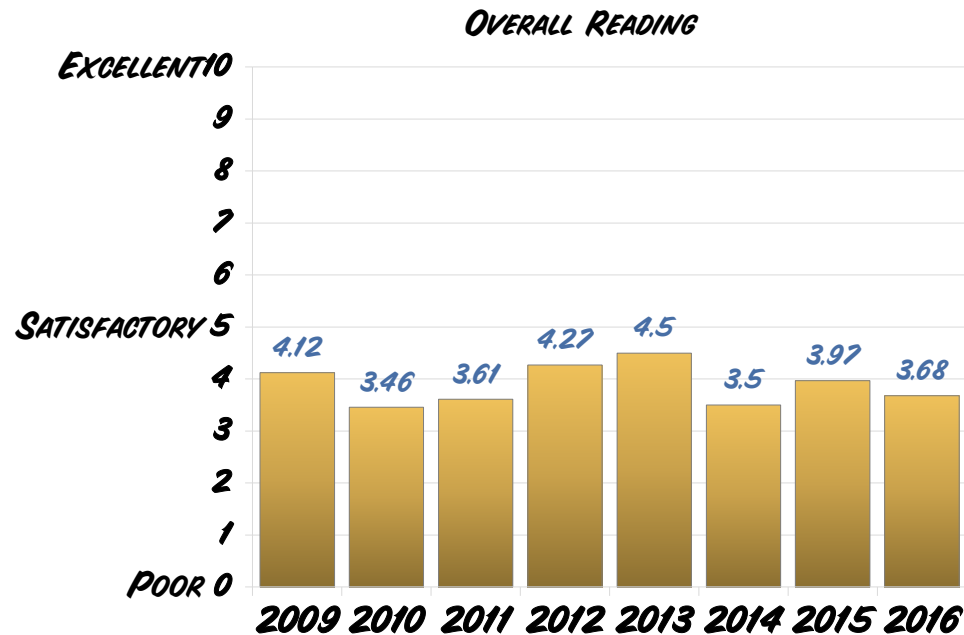
At September 30, 2016, CHUUK’s General Fund had a ratio of cash and cash equivalents to current liabilities of 0.08 to 1. This indicates that CHUUK has, for every one dollar of current liabilities, 8 cents of cash and cash equivalents to fund them. This is an unsatisfactory indicator of liquidity, but consistent with the ratio of the prior year.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
.10	.17	.16	.21	.16	.17	.17	.07	.08	.08



# PERFORMETER® READING

## HOW WAS OUR OVERALL FINANCIAL PERFORMANCE?



The 2016 reading of 3.68 indicates the evaluator’s opinion that Chuuk Government’s overall financial health and performance is considered less than satisfactory as of and for the fiscal year ended September 30, 2016, and represents a slight decrease from the reading of the prior year.

Chuuk’s relative consistency in several ratios contributes to the overall score. However, the size of the unrestricted net position deficit, the size of the General Fund unassigned fund balance deficit, low revenue dispersion, and insufficient current quick ratios remain the primary reasons for the less than satisfactory reading of the current year.

**FY 16 OVERALL PERFORMETER® READING: 3.68**



## ***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
Number of F.S. Opinion Qualifications/Exceptions	3	1	1	1	2	2	2	1
Number of Major Federal Program Qualifications/Exceptions	1	1	0	0	1	1	0	0
Number of F.S. Findings								
A. Internal Control and Compliance	0	0	0	0	0	0	0	0
B. Internal Control Only	3	1	5	4	5	2	2	2
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	3	1	5	4	5	2	2	2
Percentage of Findings Repeated	67%	0%	20%	50%	60%	100%	100%	100%
Number of A-133 Findings								
A. Internal Control and Compliance	2	1	1	1	3	2	4	1
B. Internal Control Only	0	0	0	0	1	1	0	0
C. Compliance Only	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	2	1	2	1	4	3	4	1
Percentage of A-133 Findings Repeated	50%	100%	100%	100%	25%	50%	25%	100%
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.	1	1	1	0	0	0	0	0
\$ of Questioned Costs-Current Year	\$0	\$0	\$0	\$0	\$194,238	\$114,918	\$55,292	\$0
\$ of Questioned Costs- Cumulative	\$1,055,719	\$0	\$0	\$0	\$194,238	\$309,156	\$364,448	\$364,448
\$ of Questioned Costs Resolved – Current Year	\$1,000,607	\$1,055,719	\$0	\$0	\$0	\$0	\$0	\$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.