



# *KOSRAE*

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

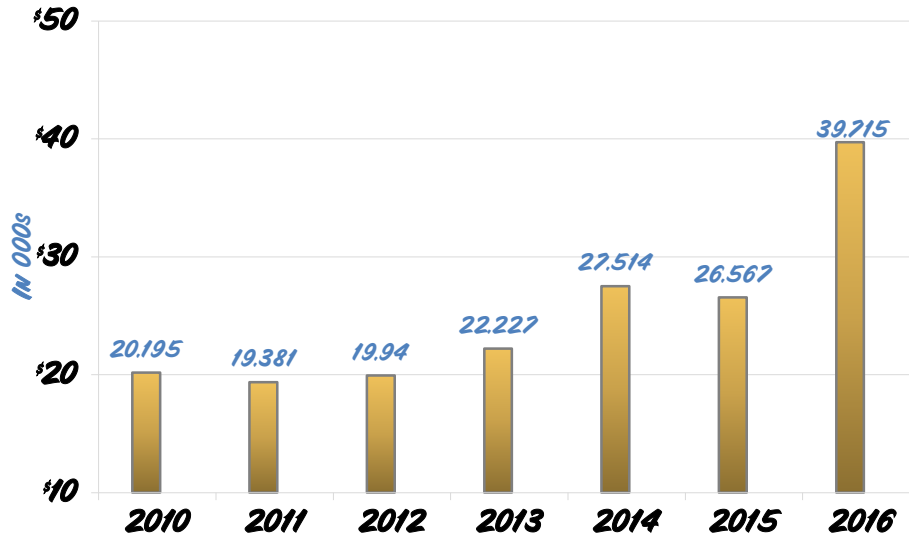
# ***LIMITATIONS OF THE PERFORMETER®***

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

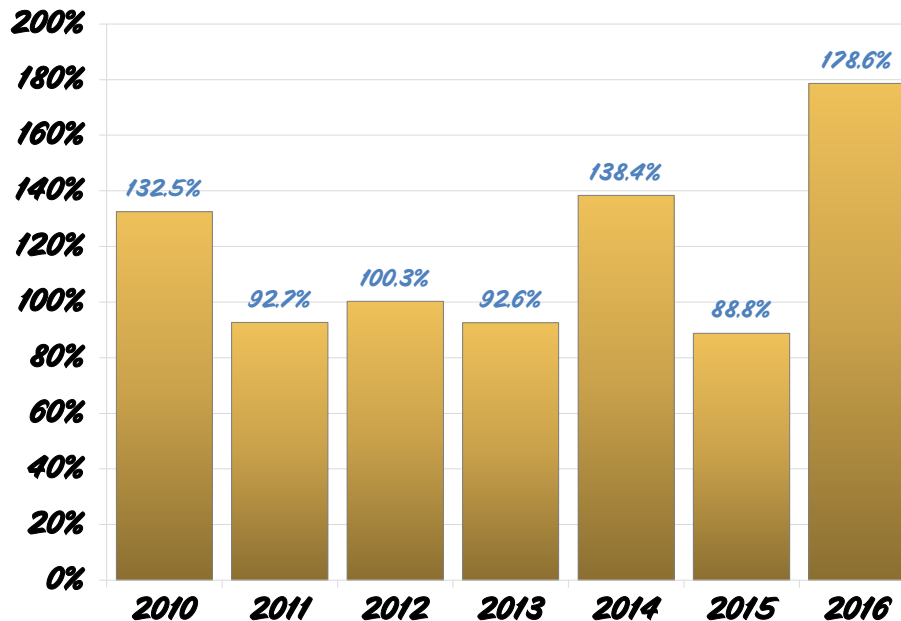
For the year ended September 30, 2016, total net position increased by \$11.8 million or 42.4% from the prior year. The reason for the increase in overall net position was due primarily to \$12.9 million of capital additions donated by the People’s Republic of China and an increase in operating grants and contributions for the year.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
-3.8%	-52.1%	-10%	-23.2%	-4%	2.9%	11.5%	-23.8%	-3.4%	42.4%

# 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.

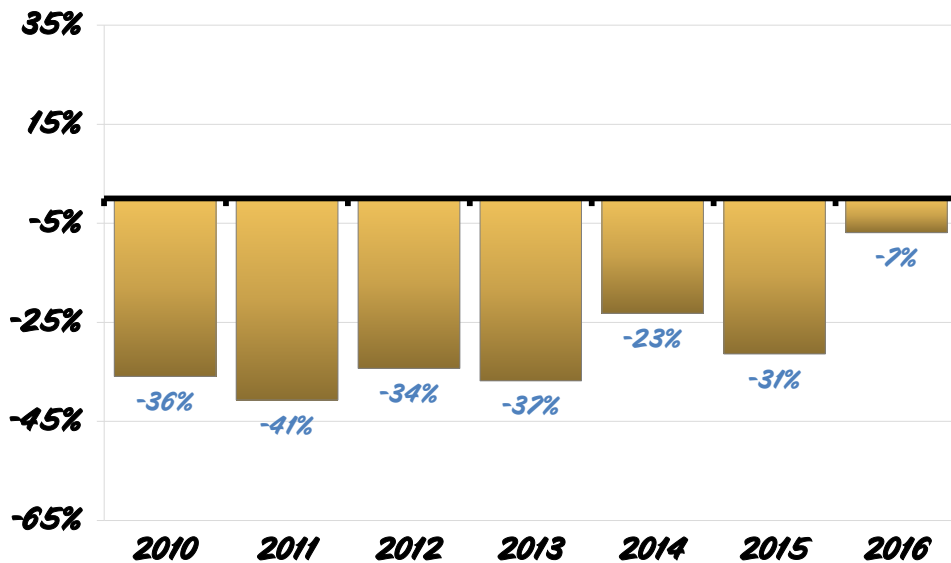
For the year ended September 30, 2016, Kosrae funded 178.6% of their expenses with current year revenues, which is considered an excellent ratio, and represents a significant increase when compared to the ratio of the prior year. The increase is due primarily to the contribution mentioned on the previous slide.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
83.7%	73.4%	109.7%	132.5%	92.7%	100.3%	92.6%	138.4%	88.8%	178.6%

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

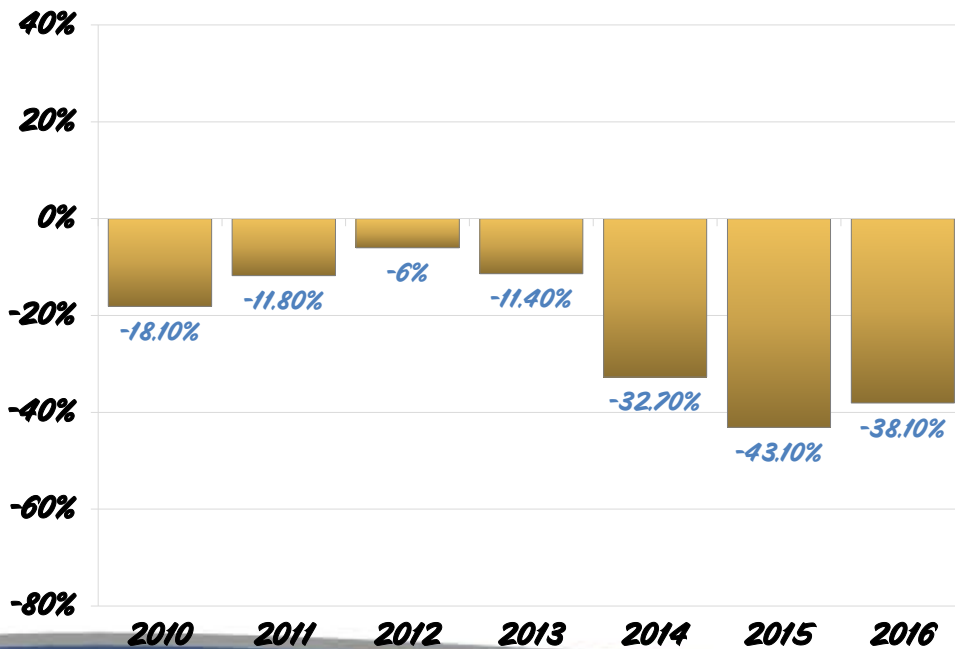
For the year ended September 30, 2016, Kosrae's total unrestricted net position (deficit) approximated 6.9% of annual total revenues. This is considered an unsatisfactory financial indicator, but represents an increase from the ratio of the prior year.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
-40.6%	-60.6%	-41.1%	-35.9%	-40.7%	-34.3%	-36.8%	-23.2%	-31.4%	-6.9%

# 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 Kosrae 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, Kosrae's unassigned fund balance (deficit) of the General Fund was a deficit of \$1 million, or the equivalent of 38.1% of annual General Fund revenues. This is considered an unfavorable ratio but is an increase when compared to the ratio of the previous year.

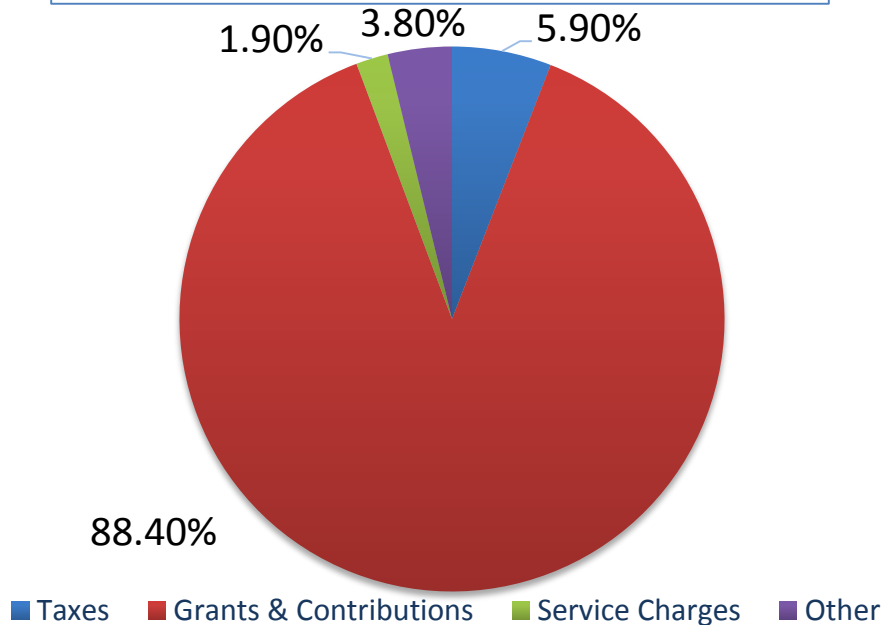
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
-77.4%	-50%	-14.5%	-18.1%	-11.8%	-6%	-11.4%	-32.7%	-43.1%	-38.1%



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

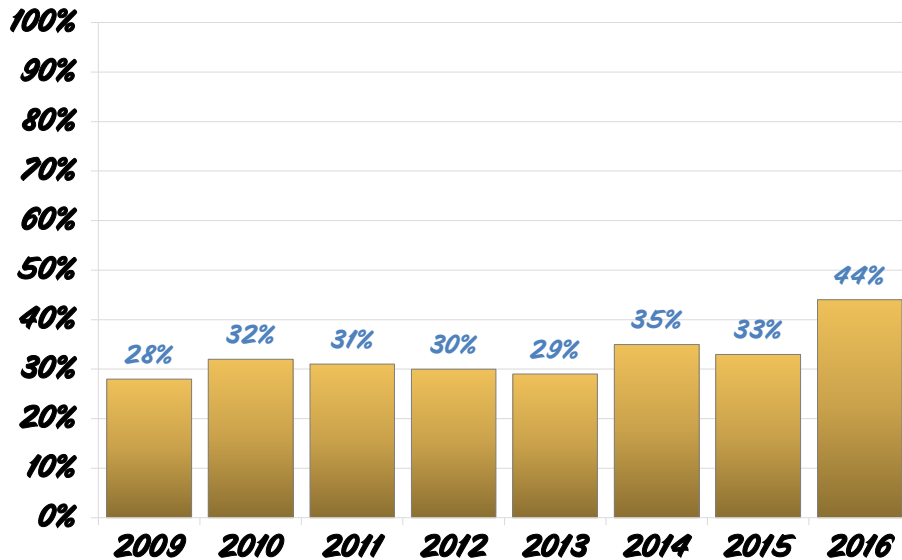
For the year ended September 30, 2016, Kosrae had direct control over 3.6% of its revenues, mostly charges for service and excise taxes. This ratio indicates Kosrae has significant exposure, as do most insular governments, to financial difficulties due to reliance (96.4%) on non-controlled revenues.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
5.7%	15.5%	7.1%	5.6%	7.4%	7.7%	7.3%	4.2%	7.8%	3.6%

# 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.

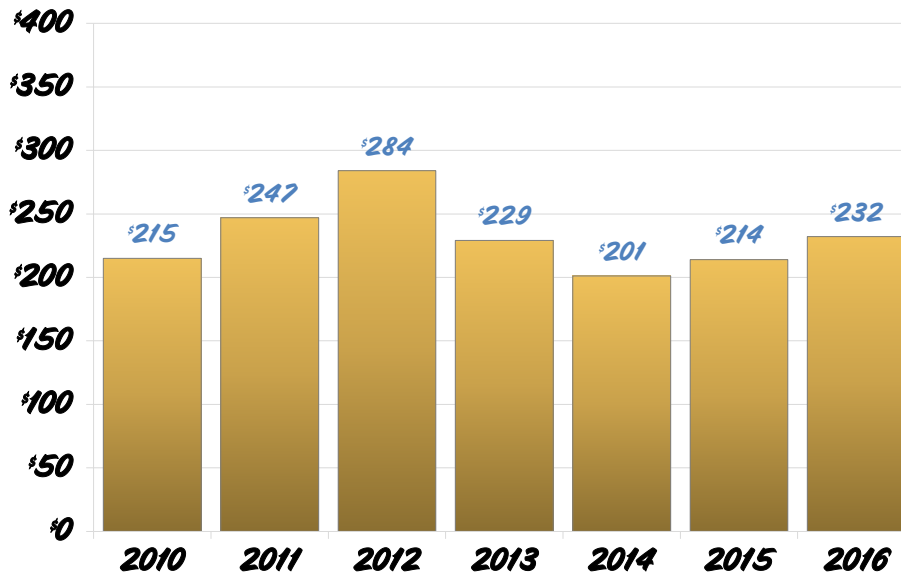
At September 30, 2016, Kosrae's depreciable capital assets amounted to \$82.5 million while accumulated depreciation totaled \$46.1 million. This indicates that, on the average, Kosrae's capital assets have 44% of their useful lives remaining. This is an unsatisfactory financial indicator but an increase when compared to the ratio of the prior year. However, the ratio is relatively consistent over the past several years.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
31%	29%	28%	32%	31%	30%	29%	35%	33%	44%

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

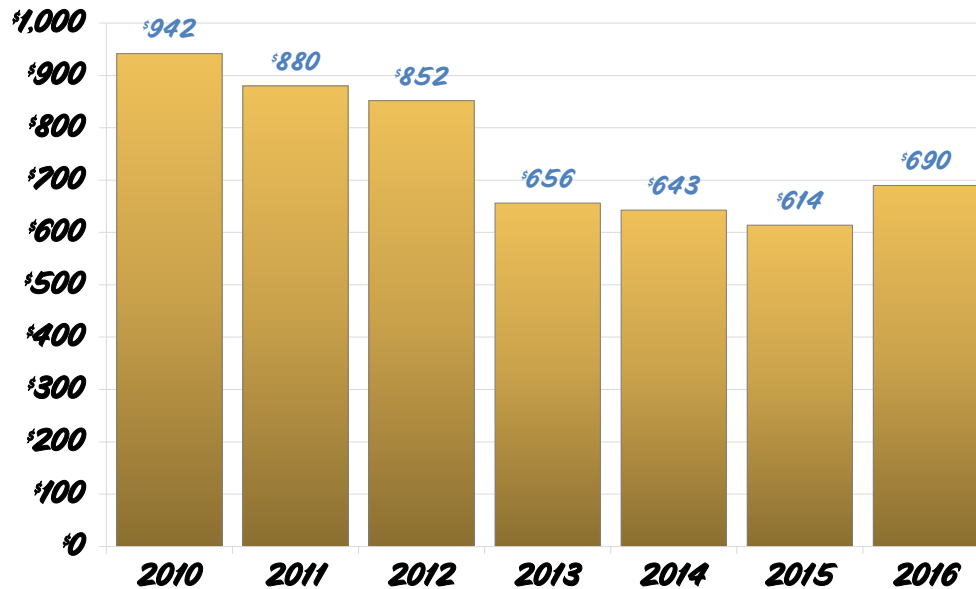
For the year ended September 30, 2016, total taxes amounted to \$1.53 million or \$232 per capita. This indicates a relatively low tax burden in relation to other insular governments, and is relatively consistent with the past several years, but does represent a slight increase when compared to the ratio of the immediate prior year.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
\$132	\$141	\$203	\$215	\$247	\$284	\$229	\$201	\$214	\$232

# 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 Kosrae’s debt burden on its citizens and other taxpayers.

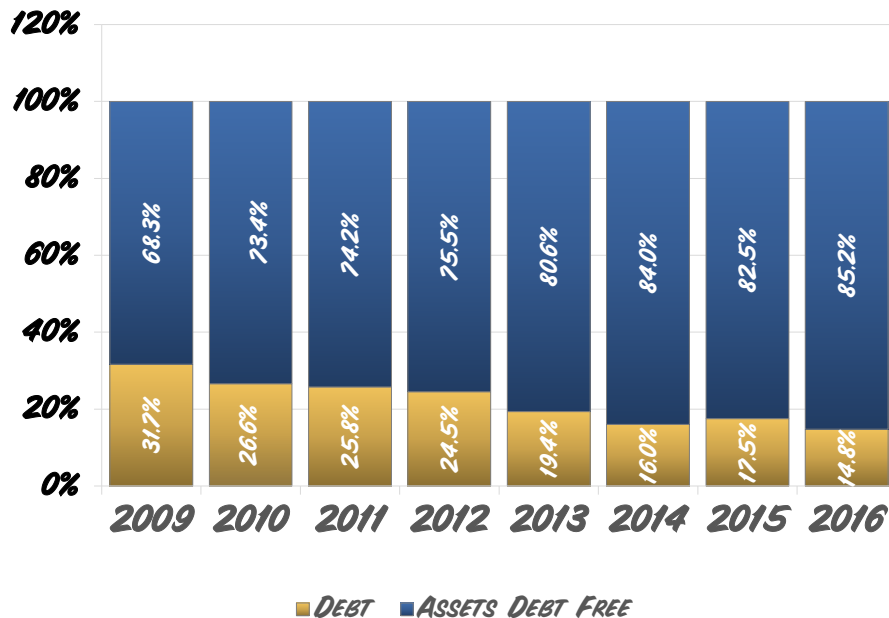
For the year ended September 30, 2016, Kosrae had \$4.6 million of long-term debt or \$690 per capita. This is a relatively low debt burden on its citizens when compared to other insular governments, and is relatively consistent with the prior period when considering normal debt retirements.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
\$648	\$756	\$806	\$942	\$880	\$852	\$656	\$643	\$614	\$690

# DEBT TO ASSETS

## WHO REALLY OWNS KOSRAE?

PERCENTAGE OF DEBT TO ASSETS - 2016



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

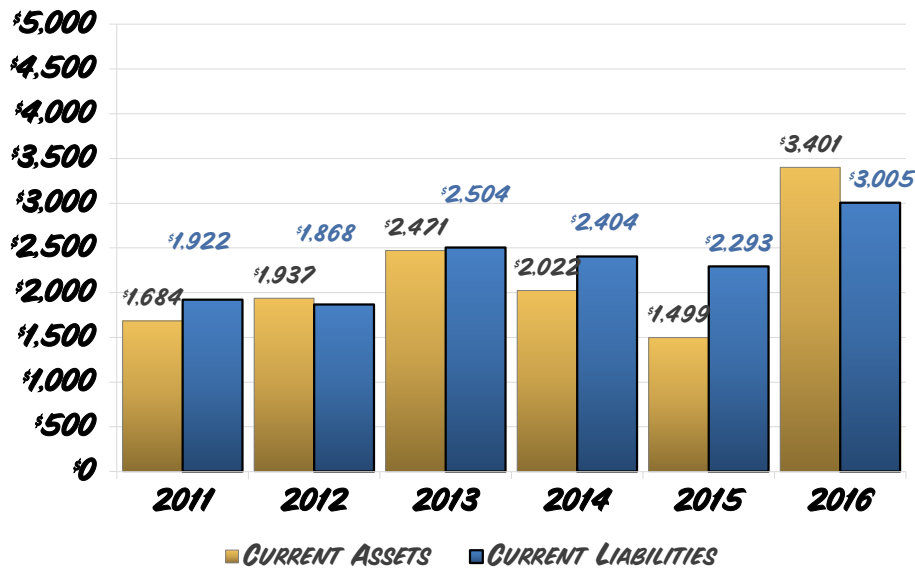
At September 30, 2016, 14.8% of Kosrae's \$46.6 million of total assets were funded with debt or other obligations. This is a favorable financial indicator and indicates that for each dollar of assets Kosrae owns, it owes 14.8 cents of that dollar to others. This represents an improvement when compared to the ratio of the prior year.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
15.9%	31.9%	31.7%	26.6%	25.8%	24.5%	19.4%	16%	17.5%	14.8%

# 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 Kosrae’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. The ratio only includes the General Fund, the primary operating fund.

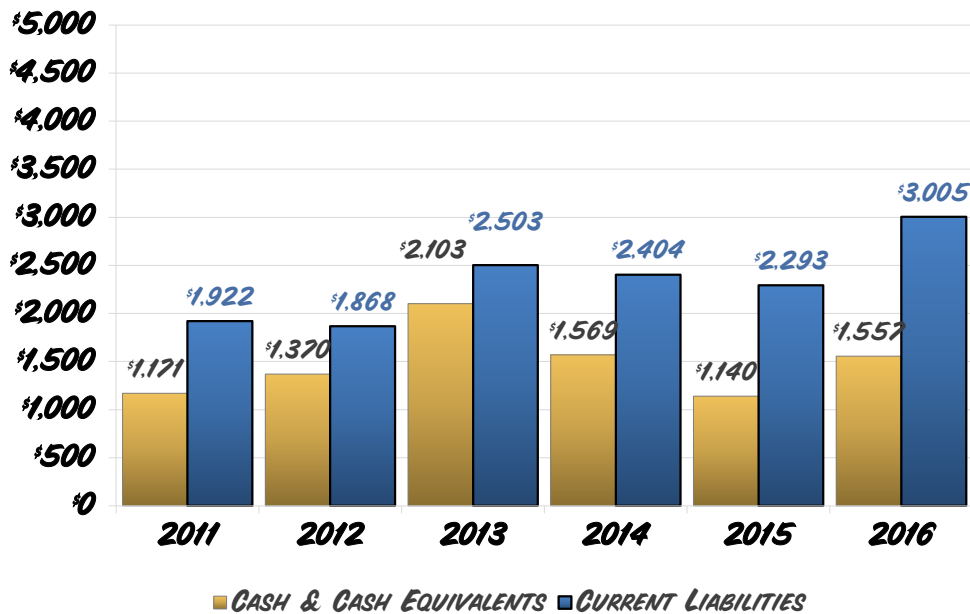
At September 30, 2016, Kosrae had a General Fund ratio of current assets to current liabilities of 1.13 to 1. This indicates that Kosrae has, for each dollar of current liabilities, 1.13 dollar of current assets to fund them. This is an unfavorable financial ratio, and could be indicative of potential cash flow problems. However, this is an increase when compared with the ratio of the prior year.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
0.67	0.79	0.97	0.96	0.88	1.04	0.99	0.84	0.65	1.13

# 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 Kosrae’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. The ratio only includes the General Fund, the primary operating fund.

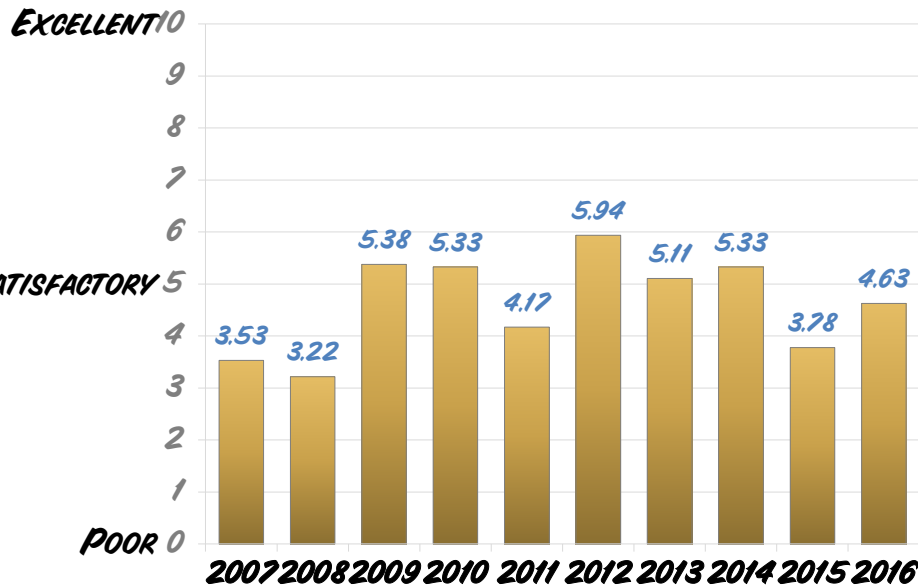
At September 30, 2016, Kosrae had a General Fund ratio of cash and cash equivalents to current liabilities of 0.52 to 1. This indicates that Kosrae has, for every one dollar of current liabilities, 52 cents of cash and cash equivalents to fund them. This is an unfavorable financial indicator, and could be indicative of cash flow needs in the near future. This represents a slight increase from the ratio reported in the prior period.

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
0.08	0.25	0.26	0.55	0.63	0.61	0.73	0.84	0.65	0.50	0.52

# PERFORMETER® READING

## HOW WAS OUR OVERALL FINANCIAL PERFORMANCE?

OVERALL READING



The 2016 reading of 4.63 indicates the evaluator’s opinion that Kosrae’s overall financial health and performance increased from the previous period but it is still below the satisfactory reading.

Kosrae’s current year increase reading is due primarily to increase in both total and unrestricted net position, the increase in capital asset condition, and the increase in debt to asset ratio. However, it is not enough to have a satisfactory ratio due to the low current and quick ratio, revenue dispersion ratio, and the general fund to total revenue ratio.

**FY 16 OVERALL PERFORMETER® READING: 4.63**



# ***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	0	0	0	0	0	0	0	0
Number of Major Federal Program Qualifications/Exceptions	0	0	0	0	0	0	0	0
Number of F.S. Findings								
A. Internal Control and Compliance	0	0	0	0	0	0	1	0
B. Internal Control Only	2	1	1	1	1	0	0	0
C. Compliance Only	0	0	0	0	0	0	0	0
TOTAL	2	1	1	1	1	0	1	0
Percentage of Findings Repeated	100%	0%	100%	100%	100%	0%	0%	0%
Number of A-133 Findings								
A. Internal Control and Compliance	0	0	0	1	0	0	0	0
B. Internal Control Only	0	0	0	0	0	0	0	0
C. Compliance Only	0	0	0	0	0	0	0	0
TOTAL	0	0	0	1	0	0	0	0
Percentage of A-133 Findings Repeated	0%	0%	0%	0%	0%	0%	0%	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	\$0	\$0	\$0	\$0	\$0
\$ of Questioned Costs- Cumulative	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$ of Questioned Costs Resolved – Current Year	\$463,367	\$0	\$0	\$0	\$0	\$0	\$0	\$0

# THANK YOU!

- We would like to commend and thank the Government of Kosrae'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 Kosrae'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.