



# PERFORMER.

## *REPUBLIC OF THE MARSHALL ISLANDS* *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 Republic of the Marshall Islands 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 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

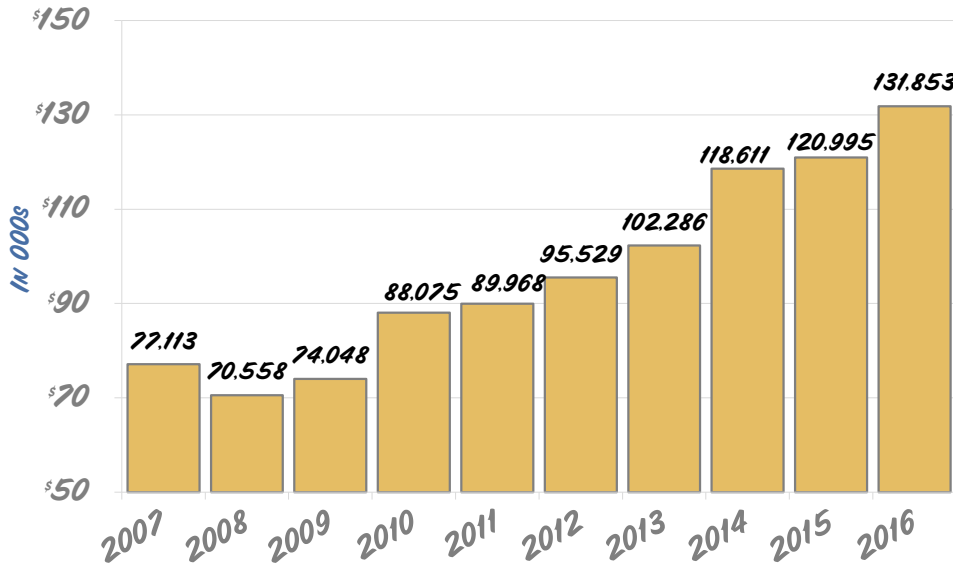
The Performer® is based on Crawford & Associates' professional judgment and is limited as to its intended use



# CHANGE IN NET POSITION

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

NET POSITION AT YEAR END



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, 2016, total net position increased by \$10.9 million or 9.0% from the prior year.

This is indicative of the RMI reporting revenues that exceeded its expenses by \$10.9 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 8 consecutive years of improvements in this ratio.

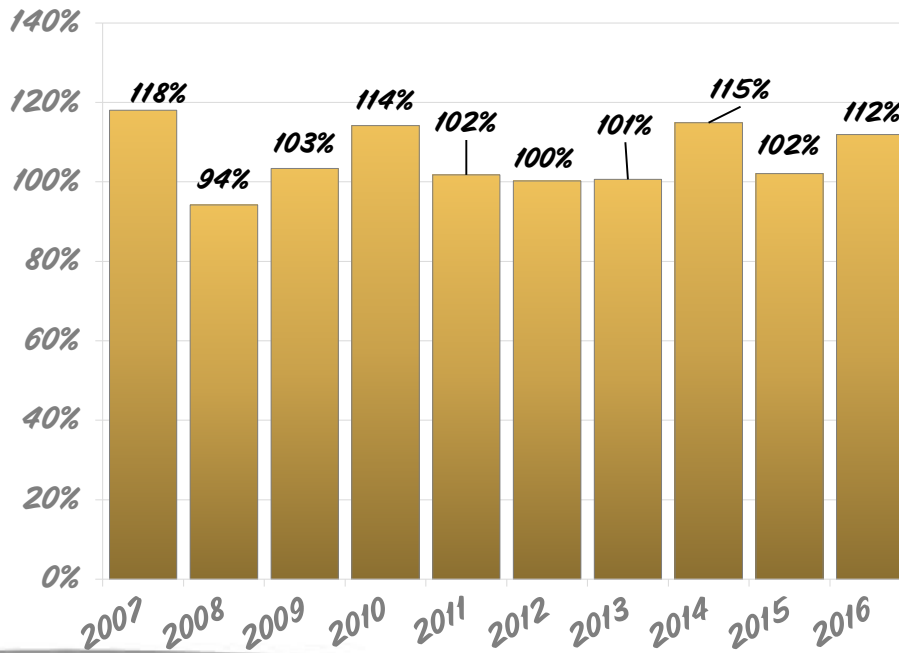
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
23.5%	-8.5%	4.9%	18.9%	2.1%	8%	7.1%	16%	2%	9%



# 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, RMI funded 111.9% of their expenses with current year revenues, which is an excellent ratio and an increase when compared to the ratio of the prior year.

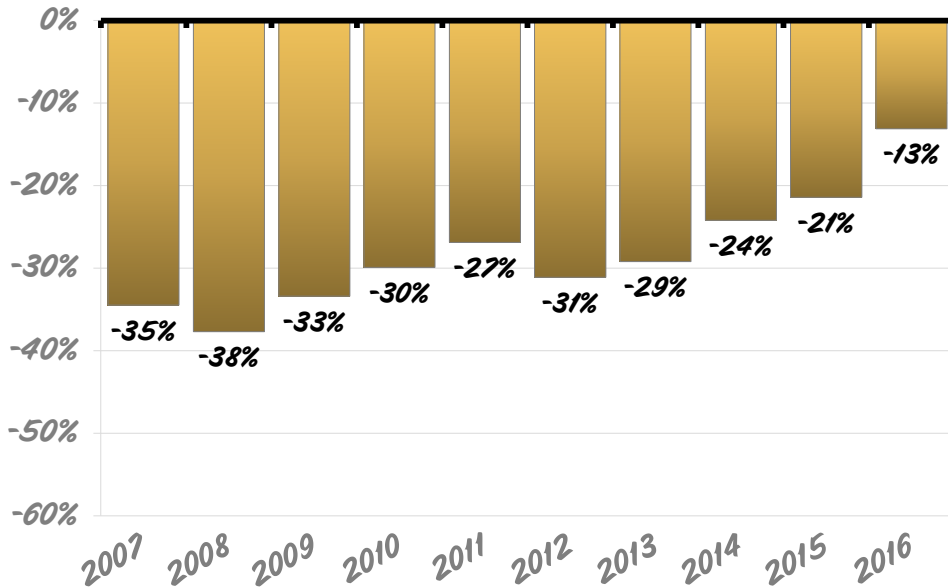
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
118%	94.2%	103.4%	114.2%	101.8%	100.2%	100.6%	114.9%	102.1%	111.9%



# 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, 2016, the RMI's total unrestricted net position (deficit) approximated a deficit of \$18.0 million, or 13.1% of annual total revenues, which represents continuing improvement in the overall trend of reductions in the deficit-to-revenue ratio of prior periods.

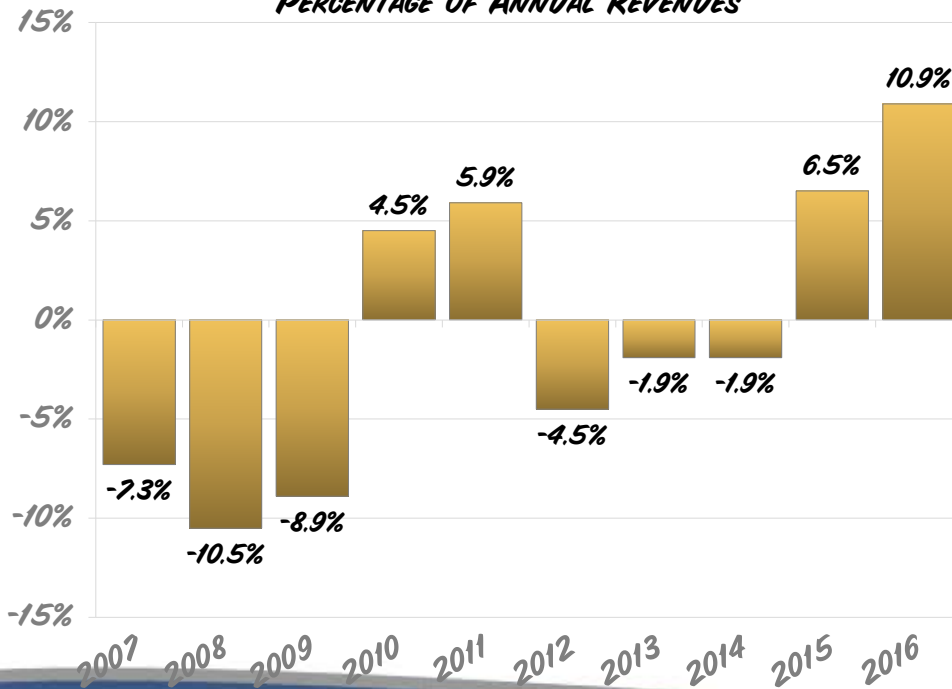
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
-34.5%	-37.7%	-33.4%	-29.9%	-26.9%	-31.1%	-29.2%	-24.2%	-21.4%	-13.1%



# 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, 2016, the RMI's unassigned fund balance of the General Fund was equal to 10.9% of annual General Fund revenues. The represents an improvement from the prior year.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
-7.3%	-10.5%	-8.9%	4.5%	5.9%	-4.5%	-1.9%	-1.9%	6.5%	10.9%

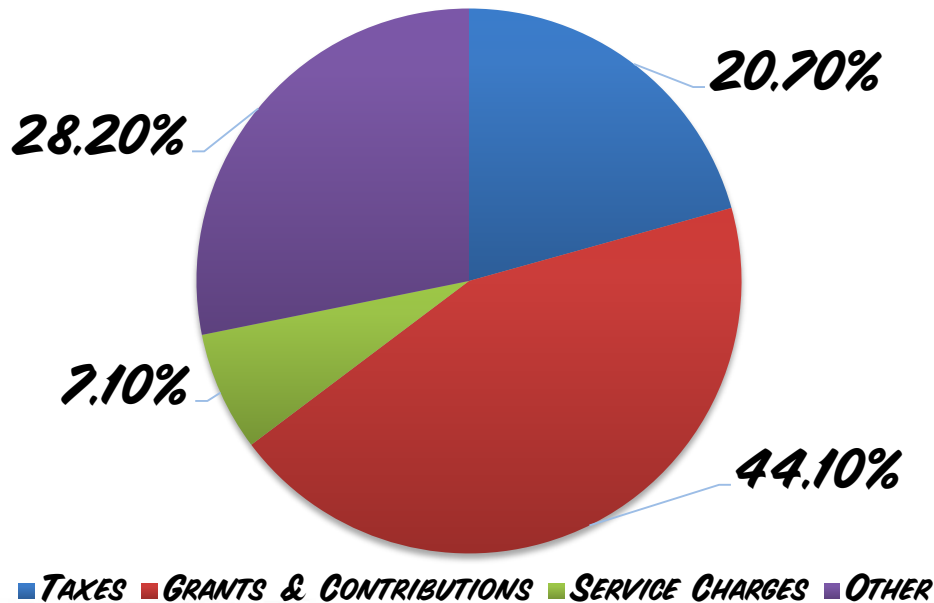




# REVENUE DISPERSION

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 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, 2016, the RMI had direct control over 32.2% 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 (67.8%).

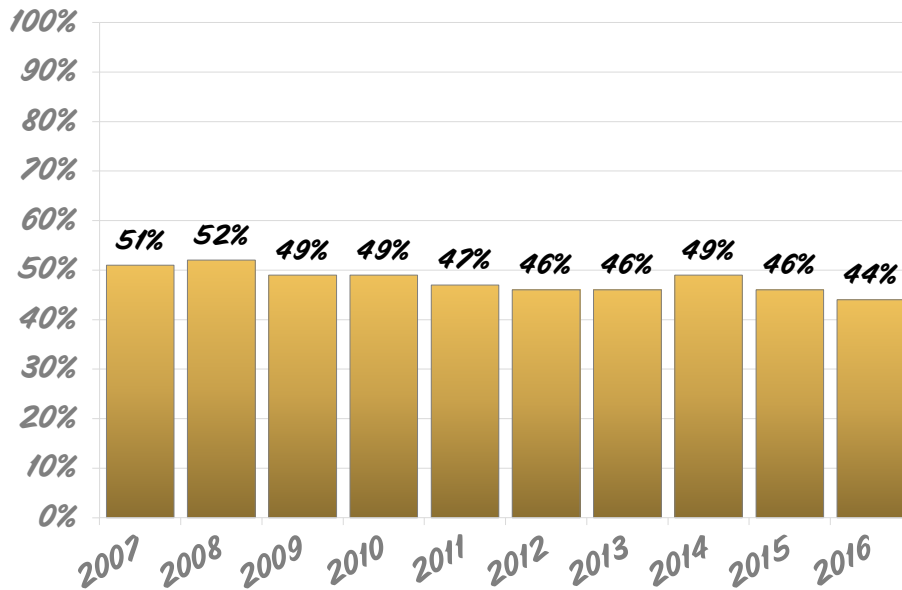
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
32.3%	31.9%	38.9%	35.3%	34.6%	37.9%	39.5%	35.1%	32.8%	36.1%	32.2%



# 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 a significant amount of capital assets.

At September 30, 2016, the RMI's depreciable capital assets amounted to \$200 million while accumulated depreciation totaled \$111.8 million. This indicates that, on the average, the RMI's capital assets have 44% of their useful lives remaining. This is considered a slightly less than satisfactory financial indicator, but it is relatively consistent with prior periods.

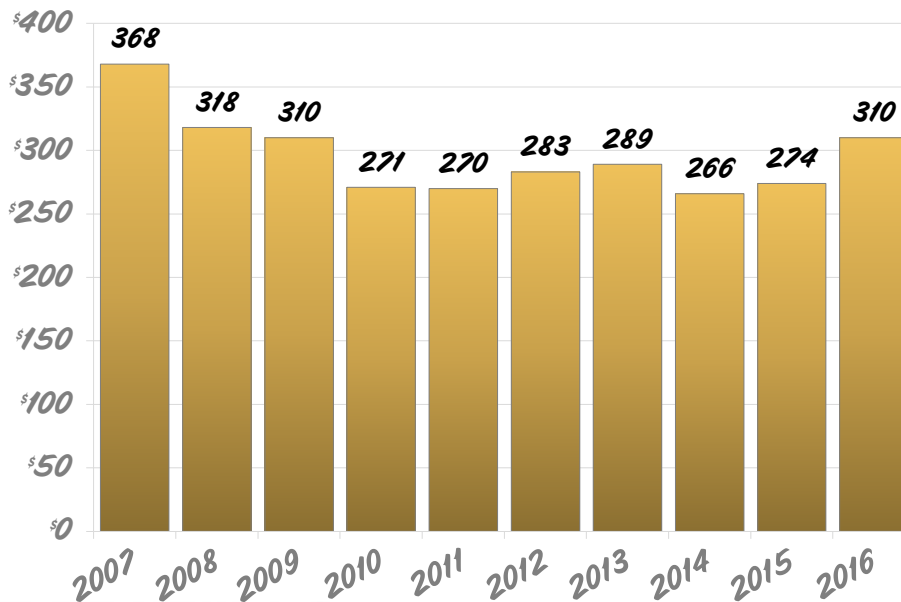
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
51%	52%	49%	49%	47%	46%	46%	49%	46%	44%



# 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 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, 2016, total taxes amounted to \$20.8 million or \$310 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.

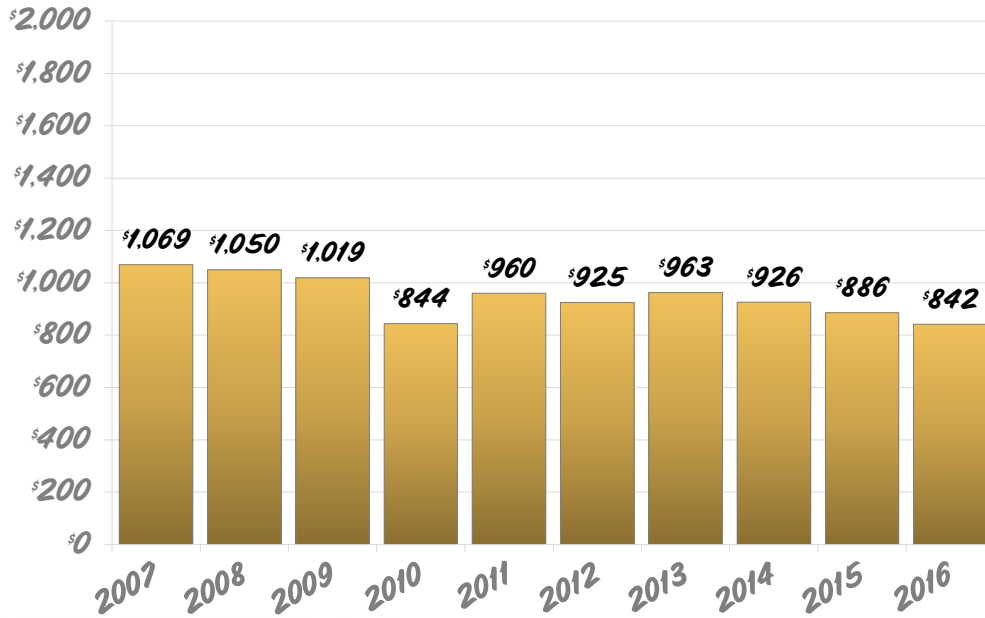
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
\$368	\$318	\$310	\$271	\$270	\$283	\$289	\$266	\$274	\$310



# 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, 2016, the RMI had \$56.6 million of long-term debt, or \$842 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.

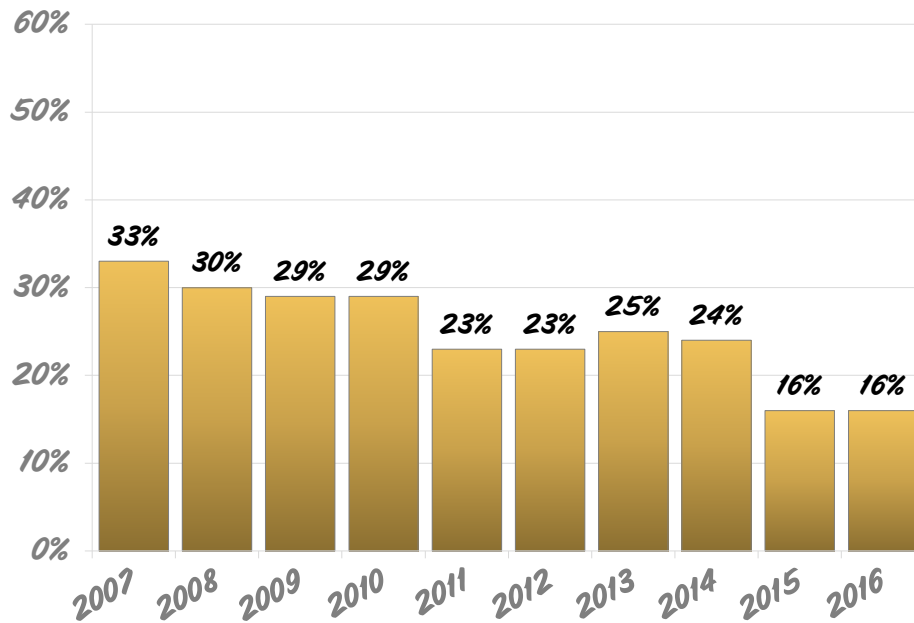
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
\$1,069	\$1,050	\$1,019	\$844	\$960	\$925	\$963	\$926	\$886	\$842



# 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.

At September 30, 2016, based upon the latest available actuarial information (Oct 2014), the RMI's pension plan assets were 16% 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.

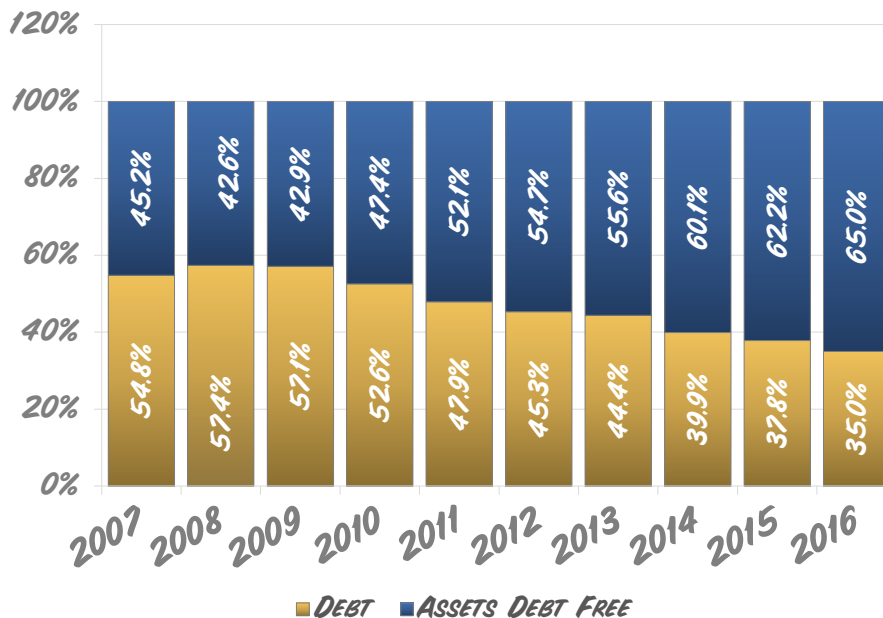
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
33%	30%	29%	29%	23%	23%	25%	24%	16%	16%



# DEBT TO ASSETS

## WHO REALLY OWNS THE RMI?

PERCENTAGE OF DEBT TO ASSETS - 2016



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, 2016, 35.0% of the RMI's \$202.9 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 35 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 ratio of the prior periods.

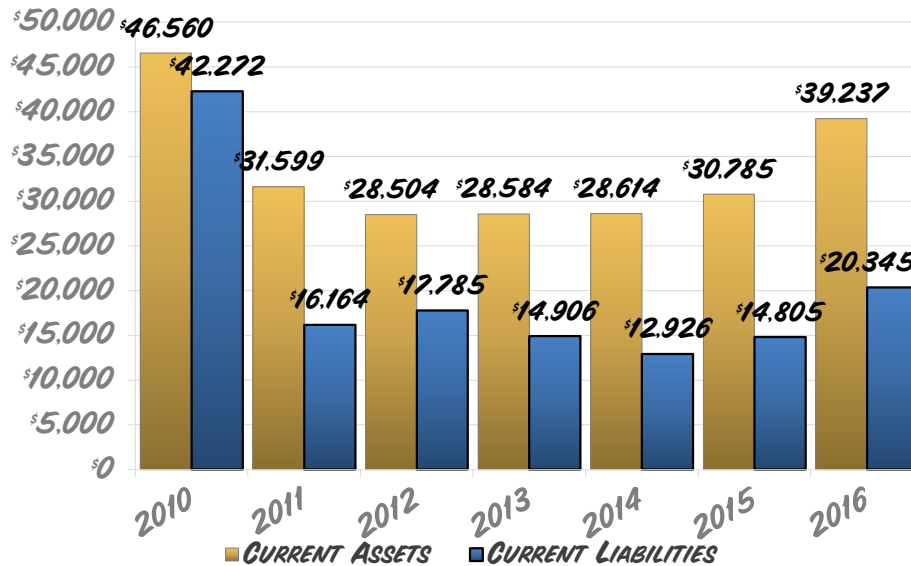
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
54.8%	57.4%	57.1%	52.6%	47.9%	45.3%	44.4%	39.9%	37.8%	35.0%



# 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, 2016, the RMI had a General Fund ratio of current assets to current liabilities of 1.93 to 1. This indicates that for every dollar of current liabilities, the RMI had \$1.93 to fund them. This is a slight decline in the ratio of the prior period, and is considered slightly below satisfactory.

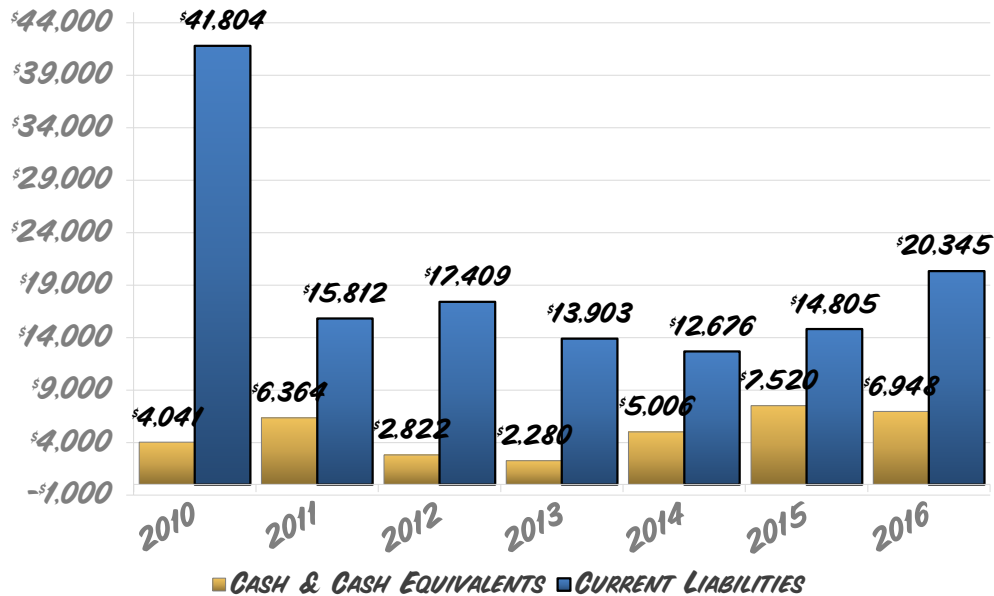
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1.07	1.15	1.10	1.10	1.95	1.60	1.92	2.21	2.08	1.93



# QUICK RATIO

## HOW IS OUR SHORT-TERM CASH POSITION?

CASH AND CASH EQUIVALENTS COMPARED TO CURRENT LIABILITIES - 2016



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, 2016, the RMI had a General Fund ratio of cash and cash equivalents to current liabilities of .341 to 1. This indicates that for every dollar of current liabilities, the RMI had 34 cents in cash and cash equivalents to fund them. This is considered an unfavorable ratio and represent a decline when compared the prior period ratio.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
0.03	0.06	0.09	0.10	0.40	0.16	0.16	0.39	0.51	0.34





# PERFORMETER® READING

## HOW WAS OUR OVERALL FINANCIAL PERFORMANCE?

OVERALL READING

EXCELLENT

9

8

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6

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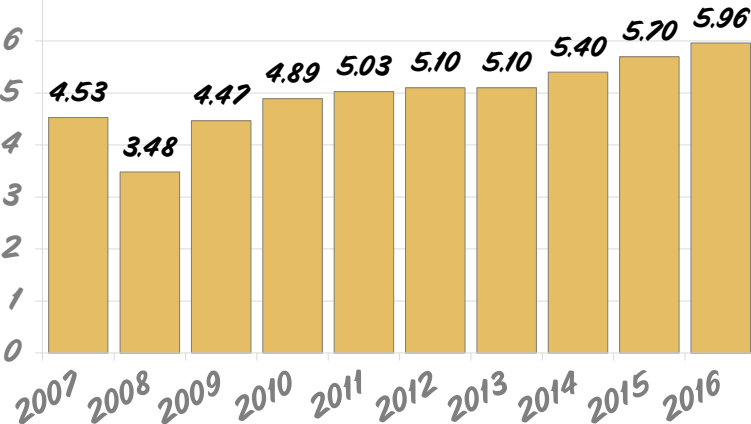
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POOR 0

SATISFACTORY



The 2016 reading of 5.96 indicates the evaluator's opinion that the RMI's overall financial health and performance improved slightly during the year, and represents the highest rating of any year in this analysis.

The continued consistency related to the increase in overall net position, the decrease of the overall unrestricted net position deficit, and the continuation of a positive position of the General Fund unassigned fund balance are the primary reasons for most ratios being slightly better than prior year scores. This becomes the sixth consecutive year that the RMI has scored above a 5.

**FY16 OVERALL PERFORMETER® READING:**

**5.96**



# *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.



	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of F.S. Opinion Qualifications/Exceptions	0	0	0	0	0	0	0	0	0
Number of Major Federal Program Qualifications/Exceptions	3	3	1	3	2	2	2	2	2
Number of F.S. Findings									
A. Internal Control and Compliance	0	0	1	0	0	0	0	1	0
B. Internal Control Only	1	1	4	2	4	7	6	6	1
C. Compliance Only	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>3</u>	<u>1</u>	<u>2</u>
TOTAL	1	1	5	2	4	8	9	8	3
Percentage of Findings Repeated	0%	0%	20%	50%	75%	75%	78%	88%	67%
Number of A-133 Findings									
A. Internal Control and Compliance	0	11	6	12	7	3	4	12	9
B. Internal Control Only	3	0	1	0	0	4	0	0	0
C. Compliance Only	<u>5</u>	<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	8	11	7	12	7	7	4	12	9
Percentage of A-133 Findings Repeated	12.5%	9%	14%	41.7%	100%	100%	100%	42%	89%
Number of months after Y/E the F.S. were Released	9	9	9	17	10	12	17	14	9
Number of Qualifications/Exceptions Related to C.U.	0	0	0	0	0	0	0	0	0
\$ of Questioned Costs-Current Year	\$645,618	\$1,360,234	\$2,243,301	\$3,156,810	\$35,857	\$71,294	\$318,321	\$626,246	\$67,261
\$ of Questioned Costs- Cumulative	\$1,777,362	\$2,716,037	\$4,249,153	\$7,405,963	\$7,441,820	\$2,355,004	\$2,673,325	\$3,297,321	\$1,917,560
\$ of Questioned Costs Resolved – Current Year	\$263,733	\$421,559	\$710,185	\$1,196,066	\$0	\$5,158,110	\$0	\$1,650	\$1,447,662



# 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.