

**CHUUK STATE HEALTH CARE PLAN  
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2019 and 2018**

**CHUUK STATE HEALTH CARE PLAN  
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

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Years Ended September 30, 2019 and 2018

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## **INDEPENDENT AUDITORS' REPORT**

The Board of Trustees  
Chuuk State Health Care Plan:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Chuuk State Health Care Plan (the Plan), a component unit of the State of Chuuk, which comprise the statements of net position as of September 30, 2019 and 2018, and the related statements of revenue, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chuuk State Health Care Plan as of September 30, 2019 and 2018, and the changes in its net position and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis-of-Matter**

### *LAWSUIT*

As discussed in Note 5 to the financial statements, the Plan has recorded \$193,315 of premiums receivable related to court judgments against the State of Chuuk (CSG). Collection of this amount is dependent on the receipt of future Chuuk State appropriations. Additionally, the Plan has recorded premiums receivable of \$99,451 that are involved in a lawsuit. The lawsuit has been ongoing for several years. The Plan has not provided an allowance related to the receivable and collection is dependent on the ultimate resolution of the lawsuit. Our opinion is not modified with respect to these matters.

### *COVID-19*

As discussed in Note 6 to the financial statements, the Plan determined that COVID-19 may negatively impact its business, results of operations and net position. The Plan is unable to reasonably estimate its ultimate financial impact. Our opinion is not modified with respect to this matter.

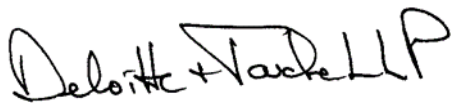
## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.



September 29, 2020

**CHUUK STATE HEALTH CARE PLAN  
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

This analysis, prepared by the management of the Chuuk State Health Care Plan (the "Plan"), offers readers a narrative overview of the activities of the Plan for the fiscal year ended September 30, 2019. We encourage readers to consider this information in conjunction with the Plan's financial statements, which follow. Fiscal years 2019 and 2018 comparative information has been included, where appropriate. This information is required by the Governmental Accounting Standards Board, (GASB), which provides guidelines on what must be included and excluded from the analysis.

There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

**FINANCIAL HIGHLIGHTS**

- For the fiscal year ended September 30, 2019, the Plan's net position decreased by \$0.16 million (up 10%), from \$1.612 million in the prior year to \$1.446 million. The decrease in net position is due to an increase in claims and premium losses during the year.
- During the fiscal year 2019, the Plan had premium revenues of \$1.581 million compared to \$1.574 million in FY 2018. The \$0.007 million increase (or 0.45%) was the result of payroll inspections in the private sector. Medical claim expenses of \$1.416 million in FY2019 increased by \$0.039 million (or 2.8%) from \$1.377 million in the prior year. This increase in medical claims expense reflects the result of an off-island medical cost increase for medical treatment.
- During fiscal year 2019, the Plan had a net loss of \$0.167 million compared with a net loss of \$0.021 million in FY 2018. The Plan had a larger number of patient off-island referrals in FY 2019 compared to FY 2018.

**THE STATEMENT OF NET POSITION**

The Statement of Net Position presents the assets, liabilities and net assets of the Plan as of the fiscal year end and represents a "snapshot" financial statement. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities, (current) and net position (assets minus liabilities). The difference between assets and liabilities will be discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Position are able to determine the available assets to continue the operations of the Plan. They are also able to determine how much the Plan owes vendors and others. Finally, the Statement of Net Position provides a picture of the net position (assets minus liabilities) available for future expenses by the Plan.

Net position is divided into two major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant and equipment owned by the Plan. The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted net position is only available for investment purposes; the Plan has no nonexpendable restricted net position. Expendable restricted net position is available for expenditures by the Plan but must be spent for purposes determined by donors and/or external entities that have place, time or purpose restrictions on the use of the assets. All the Plan assets that are not otherwise invested in capital assets are restricted by law to be used for health care services.

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SUMMARY STATEMENT OF NET POSITION  
(In '000's)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets:			
Current and other assets	\$ 1,540	\$ 1,681	\$ 1,720
Capital assets, net	<u>33</u>	<u>21</u>	<u>17</u>
Total assets	\$ <u>1,573</u>	\$ <u>1,702</u>	\$ <u>1,737</u>
Liabilities:			
Current liabilities	\$ 127	\$ 89	\$ 103
Non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>127</u>	<u>89</u>	<u>103</u>
Net assets:			
Invested in capital assets	33	21	17
Restricted	<u>1,413</u>	<u>1,592</u>	<u>1,617</u>
Total net position	<u>1,446</u>	<u>1,613</u>	<u>1,634</u>
Total liabilities and net position	\$ <u>1,573</u>	\$ <u>1,702</u>	\$ <u>1,737</u>

Total assets at the end of fiscal year 2019 of \$1.573 million exceed total liabilities of \$0.127 million, resulting in a net position of \$1.446 million. Of the total assets, \$1.019 million are held in cash, cash equivalents or short-term investments. Another \$0.491 million are in the form of accounts receivable. This contrasts with fiscal year 2018 when \$1.152 million of the total assets were held in cash, cash equivalents or short-term investments and accounts receivable were \$0.494 million. Liabilities of \$0.127 million in fiscal year 2019 compare with \$0.089 million in fiscal year 2018; up by \$0.038 million (or 43%).

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

Changes in total net position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the Plan, both operating and non-operating, and the expenses paid by the Plan, operating and non-operating.

Generally speaking, operating revenues are received from income provided by collecting health care premiums from Plan members. Other non-operating revenues are for interest income earned from short-term investments of Plan assets. Operating expenses can be classified as of two types: (i) medical service expenditures provided to eligible enrollees by accredited health care providers, and (ii) other operating expenses necessary to administer the Plan.

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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

SUMMARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
In '000's

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues:			
Premiums	\$ 1,581	\$ 1,574	\$ 1,644
Other revenues	10	13	13
Provisions for premium losses	(136)	(36)	-
Claims expenses	<u>(1,416)</u>	<u>(1,377)</u>	<u>(1,273)</u>
Total net revenues	<u>39</u>	<u>174</u>	<u>384</u>
Expenses:			
Other operating expenses	<u>294</u>	<u>371</u>	<u>307</u>
Operating (loss) earnings	(255)	(197)	78
Non- operating revenues:			
Contract with Mortlock Islands Development Authority	-	50	-
On behalf benefits received	-	79	-
Net investment (loss) income	(12)	47	-
Interest income and other income	<u>-</u>	<u>-</u>	<u>57</u>
Net (loss) income	(267)	(21)	135
Capital contribution from the FSM National Government	<u>100</u>	<u>-</u>	<u>-</u>
Change in net position	(167)	(21)	135
Net position at beginning of year	<u>1,613</u>	<u>1,634</u>	<u>1,499</u>
Net position at end of year	\$ <u>1,446</u>	\$ <u>1,613</u>	\$ <u>1,634</u>

In fiscal year 2019, the Plan has a negative net position in this aspect of its financial operations. The Statement of Revenues, Expenses, and Changes in Net Position reflects \$1.44 million in net position, with an overall \$0.167 decrease (or 10.35%) in net position from the prior year.

Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

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Management's Discussion and Analysis  
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Premium revenues represent receipts from Plan enrollees. The following table indicates premium revenue activity for fiscal years 2019, 2018 and 2017 for both public and private sector enrollees:

<b>MEMBER COMPOSITION</b>	<b>FY-</b>	<b>2019</b>	<b>FY-</b>	<b>2018</b>	<b>FY-</b>	<b>2017</b>
	<b># ENROLLED @ 9-30-19</b>	<b>PREMIUMS PAID (000's)</b>	<b># ENROLLED @ 9-30-18</b>	<b>PREMIUMS PAID (000's)</b>	<b># ENROLLED @ 9-30-17</b>	<b>PREMIUMS PAID (000's)</b>
Public Sector	6,736	\$ 1,002	7,592	\$ 1,042	7,592	\$ 1,044
Private Sector	5,061	579	4,998	532	5,332	600
<b>TOTALS</b>	<b>11,797</b>	<b>\$ 1,581</b>	<b>12,590</b>	<b>\$ 1,574</b>	<b>12,946</b>	<b>\$ 1,644</b>

The chart reflects a decrease in public sector enrollees in FY 2019, a decrease from 7,592 in fiscal year 2018 to 6,736 (or 11%) in fiscal year 2019. The private sector enrollees in fiscal year 2019 increased from 4,998 in fiscal year 2018 to 5,061 in fiscal year 2019. Payroll inspection of private companies has a positive effect on private sector premium collections.

Management's control of claim expenses is still there, but increases in medical costs and airfare is challenging in fiscal year 2019. The recurring problem from prior years of medical claim expenses comprising ever a larger ratio of Plan premiums, leaving little leftover to cover general and administrative expenses, has been broken as shown in this table reflecting ten years of Plan operations:

<u>Fiscal Year</u>	<u>Premiums</u>	<u>Claims Expense</u>	<u>Claims as a % of Premiums</u>
2019	\$ 1,581,356	\$ 1,416,343	89%
2018	\$ 1,574,595	\$ 1,377,257	87%
2017	\$ 1,644,444	\$ 1,273,393	77%
2016	\$ 1,505,119	\$ 1,124,401	75%
2015	\$ 1,500,627	\$ 1,067,416	76%
2014	\$ 1,367,637	\$ 1,123,795	82%
2013	\$ 1,431,694	\$ 1,126,562	79%
2012	\$ 1,095,027	\$ 806,379	74%
2011	\$ 1,176,426	\$ 739,663	63%
2010	\$ 989,040	\$ 642,557	65%

In fiscal year 2019, operating expenses of \$0.294 million decreased from \$0.371 million incurred in the prior year.

**STATEMENT OF CASH FLOWS**

The final statement presented by the Chuuk State Health Care Plan is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity during the year. The statement is divided into five parts. The first part deals with operating cash flows from operations of the Plan. The second section deals with noncapital financing activities of the Plan. The third section reflects cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fifth section reconciles the net cash used in operating activities to operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.



**CHUUK STATE HEALTH CARE PLAN  
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Management's Discussion and Analysis  
Years Ended September 30, 2019 and 2018

**SUMMARY STATEMENT OF CASH FLOWS  
(In '000's)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash provided by (used in):			
Operating activities	\$ (96)	\$ (137)	\$ 54
Capital and noncapital related financing activities	(24)	37	(14)
Investing activities	<u>1</u>	<u>2</u>	<u>1</u>
Net change in cash and cash equivalents	(119)	(98)	41
Cash and cash equivalents, beginning of year	<u>414</u>	<u>512</u>	<u>471</u>
Cash and cash equivalents, end of year	\$ <u>295</u>	\$ <u>414</u>	\$ <u>512</u>

The table indicates that cash and cash equivalents decreased by \$0.119 million in fiscal year 2019, from \$0.414 million in fiscal year 2018 to \$0.295 million in the current year. Notably, operating activities provided negative cash flow in fiscal years 2019 and 2018.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

The Plan's net investment in capital assets of \$33 thousand at fiscal 2019 increased from fiscal year 2018 of \$21 thousand.

The Plan has no debt and there are no foreseen circumstances that would affect the Plan's access to future capital financing.

Further information on the Plan's capital assets can be found in note 4 to the financial statements.

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in the Plan's report on the audit of financial statements, which is dated June 17, 2019. That Discussion and Analysis explains the major factors impacting the 2018 financial statements and can be obtained via the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

**ECONOMIC OUTLOOK**

Plan management will continue its focus on collecting accounts receivables, increasing Plan enrollments, and controlling medical claim and other operating expenses. Plan management will specifically focus on collecting multi-year delinquent premiums of the CPUC and the past due premium from 1% increase including the missing premium from government sectors, as the entity takes steps to rationalize its operations. Additionally, the Plan will continue to do the payroll inspection on private sector firms to make sure they are reporting all their employees to the plan accordingly in fiscal year 2019.

**CONTACTING THE CHUUK STATE HEALTH CARE PLAN'S MANAGEMENT**

This financial report is designed to provide our citizens, Plan enrollees, accredited health care providers, and other users of our financial information, a general overview of the Plan's finances to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director, Chuuk State Health Care Plan; P.O Box 1679; Weno, Chuuk; FM 96942.

**CHUUK STATE HEALTH CARE PLAN  
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Statements of Net Position  
September 30, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 294,442	\$ 413,675
Time certificates of deposit	100,000	100,000
Investments	624,892	637,642
Premiums receivable, net of an allowance for doubtful premiums of \$175,332 in 2019 and \$79,323 in 2018	389,848	471,183
Due from FSM National Government	100,000	-
Due from State of Chuuk, net	-	-
Other receivables	1,500	22,934
Total current assets	<u>1,510,682</u>	<u>1,645,434</u>
Property and equipment, net	32,864	21,028
Intangible asset, net	29,250	35,500
Total assets	<u>\$ 1,572,796</u>	<u>\$ 1,701,962</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Medical claims and benefits payable	\$ 89,985	\$ 62,368
Accounts payable and accrued expenses	36,906	26,957
Total liabilities	<u>126,891</u>	<u>89,325</u>
Contingency		
Net position:		
Net investment in capital assets	32,864	21,028
Restricted	1,413,041	1,591,609
Total net position	<u>1,445,905</u>	<u>1,612,637</u>
Total liabilities and net position	<u>\$ 1,572,796</u>	<u>\$ 1,701,962</u>

See accompanying notes to financial statements.

**CHUUK STATE HEALTH CARE PLAN  
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Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2019 and 2018

	2019	2018
Revenues:		
Premiums	\$ 1,581,356	\$ 1,574,595
Others	9,861	13,239
	1,591,217	1,587,834
Less: provision for premium losses	(136,009)	(36,451)
Net operating revenues	1,455,208	1,551,383
Benefits paid:		
Claims expenses	1,416,343	1,377,257
Net revenues	38,865	174,126
Other operating expenses:		
Coordinator's fee	101,900	93,500
Salaries, wages and other benefits	91,110	75,640
Travel	39,463	61,914
Depreciation and amortization	18,616	14,631
Meetings and board allowances	9,753	12,649
Social security expense	9,382	9,127
Office and computer supplies	4,660	26,954
Repair and maintenance	3,806	13,691
Gasoline and fuel	2,966	3,434
Rent	2,400	-
Telephone and telegraph	2,355	2,675
Representation	1,002	1,790
Legal fees	850	5,519
Contractual services	-	48,373
Miscellaneous	5,569	1,875
Total other operating expenses	293,832	371,772
Loss from operations	(254,967)	(197,646)
Nonoperating revenues, net:		
FSM National Government Subsidy	100,000	-
On behalf benefits received	-	79,048
Contract with Mortlock Islands Development Authority	-	50,000
Net investment (loss) earnings	(11,765)	47,480
Total nonoperating revenues, net	88,235	176,528
Change in net position	(166,732)	(21,118)
Net position at beginning of year	1,612,637	1,633,755
Net position at end of year	\$ 1,445,905	\$ 1,612,637

See accompanying notes to financial statements.

**CHUUK STATE HEALTH CARE PLAN**  
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Statements of Cash Flows  
Years Ended September 30, 2019 and 2018

	2019	2018
Cash		
Premiums received	\$ 1,597,977	\$ 1,555,003
Medical claims and benefits paid	(1,428,726)	(1,397,908)
Cash paid to employees and vendors	(265,267)	(294,204)
Net cash used in operating activities	(96,016)	(137,109)
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(24,202)	(12,911)
Cash flows from noncapital financing activities:		
Contract with Mortlock Islands Development Authority	-	50,000
Cash flows from investing activities:		
Proceeds on time of certificates of deposits	-	100,000
Interest income received	985	1,485
Purchase of investments	-	(100,000)
Net cash provided by investing activities	985	1,485
Net change in cash and cash equivalents	(119,233)	(98,535)
Cash and cash equivalents at beginning of year	413,675	512,210
Cash and cash equivalents at end of year	\$ 294,442	\$ 413,675
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (254,967)	\$ (197,646)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Provision for premium losses	136,009	36,451
Depreciation and amortization	18,616	14,631
Changes in assets and liabilities:		
Increase in premiums receivable	(14,674)	(32,831)
Increase in due from State of Chuuk	(40,000)	-
Decrease in other receivables	21,434	-
Increase (decrease) in medical claims and benefits payable	27,617	(20,651)
Increase in accounts payable and accrued expenses	9,949	62,937
Net cash used in operating activities	\$ (96,016)	\$ (137,109)
Noncash related financing activities:		
Increase in due from FSM National Government:		
Due from FSM National Government	\$ 100,000	\$ -
FSM National Government Subsidy	(100,000)	-
	\$ -	\$ -

See accompanying notes to financial statements.

**CHUUK STATE HEALTH CARE PLAN  
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Notes to Financial Statements  
September 30, 2019 and 2018

(1) Organization and Nature of Operations

Organization

Chuuk State Health Care Plan (the Plan or CSHCP), a component unit of the State of Chuuk, was originally established under the Chuuk Health Care Plan Act of 1994 to provide eligible residents of Chuuk State with quality health care. The Plan commenced operations in September 2003 after final approval from the Board of Trustees, with Chuuk State Hospital (CSH) as the primary health care provider. The Board of Trustees is comprised of five voting members appointed by the Governor of Chuuk, with the advice and consent of the Chuuk State Legislature, and the Executive Director as a non-voting member.

Operations

As per Chuuk State Law No. 2-94-06 (Act No: 2-25), the Plan is dedicated to serve as a financial system to provide universal coverage of an essential level of health care for all eligible enrollees by collecting health care premiums under a plan and ensuring medical services to all members through its accredited health care providers.

Aside from CSH being its primary health provider, the Plan has also accredited three medical clinics in Chuuk – Family Clinic, Genesis Pharmacy Clinic and Global Pharmacy, and ten hospitals in the Philippines – Cardinal Santos Medical Center, the Medical City, Capitol Medical Center, Kidney and Transplant Institute, Philippines Heart Center, Providence Hospital, Manila Doctors Hospital, Delos Santos Hospital, Chong Hua Hospital and St. Luke’s Hospital to provide medical services to members of the Plan.

The Plan enables all eligible government employees to be members by contributing health premiums (50% employee share and 50% employer share) so as to claim medical benefits through the accredited health care providers. The Plan has also been extended to private sector employers and employees.

(2) Summary of Significant Accounting Policies

The accounting policies of the Plan conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds.

The Plan has adopted GASB Statement No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments* (GASB 34), as amended by GASB Statement No. 37, *Basic Financial Statements – Management’s Discussion and Analysis-for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net position categories:

- Net investment in capital assets:

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

**CHUUK STATE HEALTH CARE PLAN  
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Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

- Restricted:
  - Nonexpendable – Net position subject to externally imposed stipulations that require the Plan to maintain them permanently. For the years ended September 30, 2019 and 2018, the Plan does not have nonexpendable net position.
  - Expendable – Net position whose use by the Plan is subject to externally imposed stipulations that can be fulfilled by actions of the Plan pursuant to those stipulations or that expire by the passage of time.

- Unrestricted:

Net position that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

All of the Plan's net position that are not otherwise invested in capital assets are restricted by law to be used for health care services.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue and Expense Recognition

Health care premiums from enrolled members of the Plan are reported as revenue in the period such become due. The Plan considers health care premium revenues and costs that are directly related to the provision of health care to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Medical Claims and Benefits Payable

Medical claims and benefits payable represent the actual liability on claims reported to the Plan. The liabilities for claims are determined based on actual billings received from accredited hospitals and clinics, representing medical procedures performed for members through the financial statement date.

**CHUUK STATE HEALTH CARE PLAN  
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net position and of cash flows, cash and cash equivalents is defined as amounts in bank deposit accounts as well as short-term investments maturing within three months or less of the date acquired. Time certificates of deposits with original maturity terms greater than three months are separately classified.

Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Plan does not have a deposit policy for custodial credit risk.

As of September 30, 2019 and 2018, the carrying amount of the Plan's cash and cash equivalents and time certificates of deposit was \$394,442 and \$513,675, respectively, and the corresponding bank balances were \$499,708 and \$697,866, respectively, maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019 and 2018, bank deposits in the amount of \$499,708 and \$500,000, respectively, were FDIC insured. The Plan does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

Premiums Receivable

Premiums receivable are primarily due from the Chuuk State Government and the Chuuk Public Utilities Corporation as well as private sector employers operating in Chuuk. These receivable are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on the credit risk of specific customers, historical trends and other information. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets. All of the assets have an estimated useful life of five to ten years. The Plan has generally adopted a capitalization policy of \$50,000 for equipment but recognizes assets of smaller value on a case-by-case basis. All vehicles are capitalized regardless of the value of such items. Routine repairs and maintenance costs are expensed as incurred.

**CHUUK STATE HEALTH CARE PLAN  
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Intangible Asset

Intangible asset represents the right to use office space in the Chuuk State General Hospital approved by the Governor of Chuuk, in exchange for the \$50,000 receivable from the Chuuk State Government. The exchange transaction was recorded as of September 30, 2015. The right-to-use does not specify an expiration date, and as such the asset is amortized on a straight-line basis over an estimated useful life of 8 years.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. These reclassifications had no impact on the earnings from operations, net position or cash flows as previously reported.

New Accounting Standards

During the year ended September 30, 2019, the Plan implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.



**CHUUK STATE HEALTH CARE PLAN  
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Notes to Financial Statements  
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

Risk Management

The Plan carries workmen's compensation liability insurance for all employees of the Plan; however, the Plan is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

(3) Investments

Investments recorded at fair value are comprised of the following:

	<u>2019</u>	<u>2018</u>
Common stock	\$ 399,024	\$ 431,597
Fixed income securities	213,503	191,805
Money market funds	<u>12,365</u>	<u>14,240</u>
	\$ <u>624,892</u>	\$ <u>637,642</u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Plan will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Plan's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in the Plan's name by the Plan's custodial financial institutions at September 30, 2019 and 2018.

**CHUUK STATE HEALTH CARE PLAN  
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Notes to Financial Statements  
September 30, 2019 and 2018

(3) Investments, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Plan. As of September 30, 2019, the Government Sponsored Enterprise Securities of \$47,000, represent a concentration of credit risk for the Plan's investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of September 30, 2019 and 2018, the Plan's investments recorded at fair value were as follows:

	Hierarchy			Moody's Credit Rating	Maturity	At September 30, 2019				
	As of September 30, 2019					No Maturity	Less than 1 year	1 - 5 years	6 -10 years	More than 10 years
	Level 1	Level 2	Level 3							
Investments by fair value level:										
Fixed income securities	\$ 213,503	\$ -	\$ -	Aaa	\$ 166,503	\$ -	\$ -	\$ -	\$ 47,000	
Common stock	<u>399,024</u>	_____	_____		<u>399,024</u>	_____	_____	_____	_____	
	612,527	-	-		565,527	-	-	-	47,000	
Investments measured at - amortized cost:										
Money market funds	<u>12,365</u>	_____	_____		_____	<u>12,365</u>	_____	_____	_____	
Total investments	\$ <u>624,892</u>	\$ _____	\$ _____		\$ <u>565,527</u>	\$ <u>12,365</u>	\$ _____	\$ _____	\$ <u>47,000</u>	

	Hierarchy			Moody's Credit Rating	Maturity	At September 30, 2018				
	As of September 30, 2018					No Maturity	Less than 1 year	1 - 5 years	6 -10 years	More than 10 years
	Level 1	Level 2	Level 3							
Investments by fair value level:										
Fixed income securities	\$ 191,805	\$ -	\$ -	Aaa	\$ 191,805	\$ -	\$ -	\$ -	\$ -	
Common stock	<u>431,597</u>	_____	_____		<u>431,597</u>	_____	_____	_____	_____	
	623,402	-	-		623,402	-	-	-	-	
Investments measured at amortized cost:										
Money market funds	<u>14,240</u>	_____	_____		_____	<u>14,240</u>	_____	_____	_____	
Total investments	\$ <u>637,642</u>	\$ _____	\$ _____		\$ <u>623,402</u>	\$ <u>14,240</u>	\$ _____	\$ _____	\$ _____	

**CHUUK STATE HEALTH CARE PLAN  
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Notes to Financial Statements  
September 30, 2019 and 2018

(4) Property and Equipment

A summary of the Plan's property and equipment at September 30, 2019 and 2018, is as follows:

	Estimated Useful Lives	Balance at October 1, 2018	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2019
Office furniture and equipment	5 - 10 years	\$ 66,755	\$ -	\$ -	\$ 66,755
Building improvement	5 - 10 years	-	24,202	-	24,202
Vehicles	5 years	<u>77,160</u>	<u>-</u>	<u>-</u>	<u>77,160</u>
		143,915	24,202	-	168,117
Less accumulated depreciation		<u>(122,887)</u>	<u>(12,366)</u>	<u>-</u>	<u>(135,253)</u>
Property and equipment, net		\$ <u>21,028</u>	\$ <u>11,836</u>	\$ <u>-</u>	\$ <u>32,864</u>
	Estimated Useful Lives	Balance at October 1, 2017	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2018
Office furniture and equipment	5 - 10 years	\$ 63,121	\$ 3,634	\$ -	\$ 66,755
Vehicles	5 years	<u>67,883</u>	<u>9,277</u>	<u>-</u>	<u>77,160</u>
		131,004	12,911	-	143,915
Less accumulated depreciation		<u>(114,506)</u>	<u>(8,381)</u>	<u>-</u>	<u>(122,887)</u>
Property and equipment, net		\$ <u>16,498</u>	\$ <u>4,530</u>	\$ <u>-</u>	\$ <u>21,028</u>

(5) Related Parties

As of September 30, 2019 and 2018, premiums receivable from the Chuuk State Government (CSG) amounted to \$337,070 and \$336,668, respectively, and related premium revenue earned for the years then ended amounted to \$1,050,158 and \$1,042,165, respectively. Of the \$337,070 of premiums receivable, \$193,315 relates to court judgments against CSG. The judgments have been obtained but funding for repayment of the receivables depends on future Chuuk State appropriations.

Of the \$337,070 of premiums receivable, \$96,009 relates to payment of excess medical billings of various patients charged to CSG. As of September 30, 2019, the Plan recorded a related allowance for uncollectible accounts of \$96,009.

At September 30, 2019 and 2018, the Plan has outstanding premiums receivable from Chuuk Public Utility Corporation (CPUC) in the amount of \$99,451 that are involved in a lawsuit. The lawsuit has been on-going for several years. The ultimate collectibility of this matter is dependent on the outcome of the lawsuit.

During the year ended September 30, 2019, the Plan advanced \$90,000 to CSG, who has promised to repay, for emergency medical airfare of a government official, of which \$40,000 remain uncollected as of September 30, 2019. As of September 30, 2019, the Plan recorded a related allowance for uncollectible accounts of \$40,000.

**CHUUK STATE HEALTH CARE PLAN  
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Notes to Financial Statements  
September 30, 2019 and 2018

(5) Related Parties, Continued

During the year ended September 30, 2018, the Mortlock Islands Development Authority (Authority) received an appropriation from the Congress of the FSM National Government, which became Public Law 19-121, with a \$50,000 line item for the Plan under Election District No. 1 or the Mortlock Islands. The funding is intended to defray the cost of eligible applicants from Election District No. 1 who reached the maximum premium limit of their coverage and those who have yet to enroll in the Plan's health insurance program due to their inability to pay. During the year ended September 30, 2018, the Plan and the Authority entered into a Memorandum of Understanding (MOU). Under the MOU, the Plan provided health care benefits to the Authority's patients and the Authority transferred to the Plan the amount of \$50,000. There was no congressional appropriation in 2019 and the MOU was not extended.

During the year ended September 30, 2018, the Plan received an on behalf benefit grant of \$79,048 from the FSM National Government Health Sector Grant to Chuuk State Government. Related travel costs, office supplies and contractual services were paid by the CSG direct to related vendors.

(6) Subsequent Event

As a result of the spread of the COVID-19 coronavirus, governments worldwide implemented actions to restrict travel and economic activities. Uncertainties have arisen which may have negative impact on the Plan's financial and operational results. Such potential impacts cannot be reasonably estimated at this time.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Trustees  
Chuuk State Health Care Plan:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Chuuk State Health Care Plan (the "Plan"), which comprise the statement of net position as September 30, 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 29, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

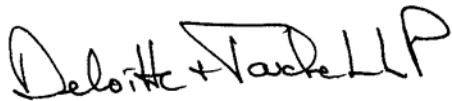
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

September 29, 2020