

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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

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Years Ended September 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 \$193,169 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 \$100,439 that are involved in a lawsuit. The lawsuit has been on-going 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.

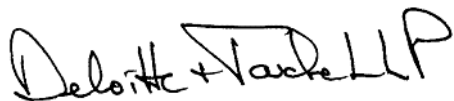
Other Matters

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 7 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 October 13, 2021, 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.



October 13, 2021

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

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

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, 2020. We encourage readers to consider this information in conjunction with the Plan's financial statements, which follow. Fiscal years 2020 and 2019 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, 2020, the Plan's net position increased by \$0.489 million (up 34%), from \$1.446 million in the prior year to \$1.935 million in the current year. The increase in net position is due to an increase in premium and decrease in medical claims due to COVID-19 pandemic.
- During the fiscal year 2020, the Plan had premium revenues of \$1.700 million compared to \$1.581 million in FY 2019. The \$0.119 million increase (or 7%) was the result of payroll inspection in private sector. Medical claim expenses of \$0.846 million in FY2020 decreased by \$0.570 million (or 40%) from \$1.416 million in the prior year. This decrease in medical claim expense reflects the result of only few medical referral due to the pandemic.
- During fiscal year 2020, the Plan had a net income of \$0.489 million compared with a net loss of \$0.167 million in FY 2019. The Plan had a much smaller number of patients off-island referrals in FY 2020 compared to FY 2019.

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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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets:			
Current and other assets	\$ 1,986	\$ 1,540	\$ 1,681
Capital assets, net	<u>34</u>	<u>33</u>	<u>21</u>
Total assets	\$ <u>2,020</u>	\$ <u>1,573</u>	\$ <u>1,702</u>
Liabilities:			
Current liabilities	\$ <u>86</u>	\$ <u>127</u>	\$ <u>89</u>
Net assets:			
Invested in capital assets	34	33	21
Restricted	<u>1,900</u>	<u>1,413</u>	<u>1,592</u>
Total net position	<u>1,934</u>	<u>1,446</u>	<u>1,613</u>
Total liabilities and net position	\$ <u>2,020</u>	\$ <u>1,573</u>	\$ <u>1,702</u>

Total assets at the end of fiscal year 2020 of \$2.020 million exceed total liabilities of \$0.086 million, resulting in a net position of \$1.934 million. Of the total assets, \$1.591 million are held in cash, cash equivalents or short-term investments. Another \$0.372 million are in the form of accounts receivable. This contrasts with fiscal year 2019 when \$1.019 million of the total assets were held in cash, cash equivalents or short-term investments and accounts receivable were \$0.491 million. Liabilities of \$0.086 million in fiscal year 2020 compare with \$0.127 million in fiscal year 2019; down by \$0.041 million (or 32%).

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenues:			
Premiums	\$ 1,700	\$ 1,581	\$ 1,574
Other revenues	18	10	13
Provisions for premium losses	(176)	(136)	(36)
Claims expenses	<u>(846)</u>	<u>(1,416)</u>	<u>(1,377)</u>
Total net revenues	<u>696</u>	<u>39</u>	<u>174</u>
Expenses:			
Other operating expenses	<u>284</u>	<u>294</u>	<u>371</u>
Operating earnings (loss)	412	(255)	(197)
Non- operating revenues:			
Contract with Mortlock Islands Development Authority	-	-	50
On behalf benefits received	-	-	79
Net investment (loss) income	<u>7</u>	<u>(12)</u>	<u>47</u>
Net (loss) income	<u>419</u>	(267)	(21)
Contribution from the FSM National Government	<u>70</u>	<u>100</u>	<u>-</u>
Change in net position	489	(167)	(21)
Net position at beginning of year	<u>1,446</u>	<u>1,613</u>	<u>1,634</u>
Net position at end of year	\$ <u>1,935</u>	\$ <u>1,446</u>	\$ <u>1,613</u>

In fiscal year 2020, the Plan showed a positive net position in this aspect of its financial operations. The Statement of Revenues, Expenses, and Changes in Net Position reflects \$1.935 million in net position, with an overall \$0.489 million increase (or 34%) 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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Premium revenues represent receipts from Plan enrollees. The following table indicates premium revenue activity for fiscal years 2020, 2019 and 2018 for both public and private sector enrollees:

MEMBER COMPOSITION	FY- 2020	FY- 2019	FY- 2018			
	# ENROLLED @ 9-30-20	PREMIUMS PAID (000's)	# ENROLLED @ 9-30-19	PREMIUMS PAID (000's)	# ENROLLED @ 9-30-18	PREMIUMS PAID (000's)
Public Sector	6,816	\$ 1,108	6,736	\$ 1,002	7,592	\$ 1,042
Private Sector	4,798	592	5,061	579	4,998	532
TOTALS	11,614	\$ 1,700	11,797	\$ 1,581	12,590	\$ 1,574

The chart reflects a minimal increase in public sector enrollees in FY 2020, an increase from 6,736 in fiscal year 2019 to 6,816 (or 1.2%) in fiscal year 2020. The private sector enrollees in fiscal year 2020 decreases from 5,061 in fiscal year 2019 to 4,798 in fiscal year 2020. Payroll inspection of private companies has a positive effect on private sector premium collections.

Management's control of claim expenses is still there. Due to pandemic our medical costs and airfare is not much in fiscal year 2020. 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>
2020	\$ 1,699,751	\$ 845,849	50%
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 2020, operating expenses of \$0.284 million decreased from \$0.294 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, 2020 and 2019

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash provided by (used in):			
Operating activities	\$ 405	\$ (96)	\$ (137)
Capital and noncapital related financing activities	160	(24)	37
Investing activities	<u>502</u>	<u>1</u>	<u>2</u>
Net change in cash and cash equivalents	1,067	(119)	(98)
Cash and cash equivalents, beginning of year	<u>295</u>	<u>414</u>	<u>512</u>
Cash and cash equivalents, end of year	\$ <u>1,362</u>	\$ <u>295</u>	\$ <u>414</u>

The table indicates that cash and cash equivalents increased by \$1,067 million in fiscal year 2020, from \$0.295 million in fiscal year 2019 to \$1.361 million in the current year. Notably, operating activities provided positive cash flow in fiscal year 2020.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Plan's net investment in capital assets of \$34 thousand at fiscal 2020 increased from fiscal year 2019 of \$33 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, 2019 is set forth in the Plan's report on the audit of financial statements, which is dated September 29, 2020. That Discussion and Analysis explains the major factors impacting the 2019 financial statements and can be obtained via the Office of the Public Auditor's website at www.fsmopa.fm.

ECONOMIC OUTLOOK

In fiscal year 2021, the Plan's 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 delinquent premiums of the CPUC and CSG employees, as the entity takes steps to rationalize its operations. Additionally, the Plan will continue to do the payroll inspection on private sector firms to ensure they are reporting all their employees to the plan accordingly in fiscal year 2021.

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, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 1,361,419	\$ 294,442
Time certificates of deposit	100,000	100,000
Investments	129,906	624,892
Premiums receivable, net of an allowance for doubtful premiums of \$190,416 in 2020 and \$175,332 in 2019	370,078	389,848
Due from FSM National Government	-	100,000
Due from State of Chuuk, net	-	-
Other receivables	1,924	1,500
Total current assets	<u>1,963,327</u>	<u>1,510,682</u>
Property and equipment, net	33,886	32,864
Intangible asset, net	<u>23,000</u>	<u>29,250</u>
Total assets	<u>\$ 2,020,213</u>	<u>\$ 1,572,796</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Medical claims and benefits payable	\$ 61,442	\$ 89,985
Accounts payable and accrued expenses	<u>24,134</u>	<u>36,906</u>
Total liabilities	<u>85,576</u>	<u>126,891</u>
Contingency		
Net position:		
Net investment in capital assets	33,886	32,864
Restricted	<u>1,900,751</u>	<u>1,413,041</u>
Total net position	<u>1,934,637</u>	<u>1,445,905</u>
Total liabilities and net position	<u>\$ 2,020,213</u>	<u>\$ 1,572,796</u>
	-	-

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Revenues:		
Premiums	\$ 1,699,751	\$ 1,581,356
Others	17,785	9,861
	1,717,536	1,591,217
Less: provision for premium losses	(175,693)	(136,009)
Net operating revenues	1,541,843	1,455,208
Benefits paid:		
Claims expenses	845,849	1,416,343
Net revenues	695,994	38,865
Other operating expenses:		
Salaries, wages and other benefits	103,830	91,110
Meetings and board allowances	31,641	9,753
Travel	27,877	39,463
Coordinator's fee	27,600	101,900
Legal fees	20,272	850
Depreciation and amortization	14,903	18,616
Office and computer supplies	13,914	4,660
Social security expense	10,220	9,382
Emergency relief	8,000	-
Rent	7,200	2,400
Gasoline and fuel	4,663	2,966
Telephone and telegraph	2,746	2,355
Repair and maintenance	2,356	3,806
Contractual services	2,300	-
Representation	539	1,002
Miscellaneous	6,285	5,569
Total other operating expenses	284,346	293,832
Earnings (loss) from operations	411,648	(254,967)
Nonoperating revenues, net:		
FSM National Government subsidy	70,000	100,000
Net investment (loss) earnings	7,084	(11,765)
Total nonoperating revenues, net	77,084	88,235
Change in net position	488,732	(166,732)
Net position at beginning of year	1,445,905	1,612,637
Net position at end of year	\$ 1,934,637	\$ 1,445,905

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash		
Premiums received	\$ 1,612,521	\$ 1,597,977
Medical claims and benefits paid	(925,724)	(1,428,726)
Cash paid to employees and vendors	<u>(282,215)</u>	<u>(265,267)</u>
Net cash provided by (used in) operating activities	<u>404,582</u>	<u>(96,016)</u>
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	<u>(9,675)</u>	<u>(24,202)</u>
Cash flows from noncapital financing activities:		
FSM National Government subsidy	70,000	-
Decrease in due from FSM National Government	<u>100,000</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>170,000</u>	<u>-</u>
Cash flows from investing activities:		
Interest income received	1,570	985
Sale of investments	<u>500,500</u>	<u>-</u>
Net cash provided by investing activities	<u>502,070</u>	<u>985</u>
Net change in cash and cash equivalents	1,066,977	(119,233)
Cash and cash equivalents at beginning of year	<u>294,442</u>	<u>413,675</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,361,419</u></u>	<u><u>\$ 294,442</u></u>
Reconciliation of earnings (loss) from operations to net cash provided by (used in) operating activities:		
Earnings (loss) from operations	\$ 411,648	\$ (254,967)
Adjustments to reconcile earnings (loss) from operations to net cash provided by (used in) operating activities:		
Provision for premium losses	175,693	136,009
Depreciation and amortization	14,903	18,616
Changes in assets and liabilities:		
Decrease (increase) in premiums receivable	4,686	(14,674)
Increase in due from State of Chuuk	(51,332)	(40,000)
(Increase) decrease in other receivables	(109,701)	21,434
(Decrease) increase in medical claims and benefits payable	(28,543)	27,617
(Decrease) increase in accounts payable and accrued expenses	<u>(12,772)</u>	<u>9,949</u>
Net cash provided by (used in) operating activities	<u><u>\$ 404,582</u></u>	<u><u>\$ (96,016)</u></u>
Noncash related financing activities:		
Increase in due from FSM National Government:		
Due from FSM National Government	\$ -	\$ 100,000
FSM National Government subsidy	<u>-</u>	<u>(100,000)</u>
	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

**CHUUK STATE HEALTH CARE PLAN
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Notes to Financial Statements
September 30, 2020 and 2019

(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, 2020 and 2019

(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, 2020 and 2019, 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, 2020 and 2019

(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, 2020 and 2019, the carrying amount of the Plan's cash and cash equivalents and time certificates of deposit was \$1,461,419 and \$394,442, respectively, and the corresponding bank balances were \$1,519,952 and \$499,708, respectively, maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, bank deposits in the amount of \$500,000 and \$499,708, 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 receivables 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, 2020 and 2019

(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 2019 financial statements to conform to the 2020 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, 2020, the Plan implemented the following pronouncements:

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

**CHUUK STATE HEALTH CARE PLAN
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ended September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

**CHUUK STATE HEALTH CARE PLAN
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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.

**CHUUK STATE HEALTH CARE PLAN
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Notes to Financial Statements
September 30, 2020 and 2019

(3) Investments

Investments recorded at fair value are comprised of the following:

	<u>2020</u>	<u>2019</u>
Common stock	\$ 84,642	\$ 399,024
Fixed income securities	37,908	213,503
Money market funds	<u>7,356</u>	<u>12,365</u>
	<u>\$ 129,906</u>	<u>\$ 624,892</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, 2020 and 2019.

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, 2020 and 2019, the Government Sponsored Enterprise Securities of \$0, and \$47,000, respectively, 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, 2020 and 2019, the Plan's investments recorded at fair value were as follows:

	Hierarchy As of September 30, 2020			Moody's Credit Rating	Maturity At September 30, 2020	At September 30, 2020				
	Level 1	Level 2	Level 3			No Maturity	Less than 1 year	1 - 5 years	6 -10 years	More than 10 years
	Level 1	Level 2	Level 3			No Maturity	1 year	1 - 5 years	6 -10 years	More than 10 years
Investments by fair value level:										
Fixed income securities	\$ 37,908	\$ -	\$ -	Aaa	\$ 37,908	\$ -	\$ -	\$ -	\$ -	
Common stock	<u>84,642</u>	<u>-</u>	<u>-</u>		<u>84,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
	122,550	-	-		122,550	-	-	-	-	
Investments measured at amortized cost:										
Money market funds	<u>7,356</u>	<u>-</u>	<u>-</u>		<u>7,356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total investments	<u>\$ 129,906</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 122,550</u>	<u>\$ 7,356</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

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

Notes to Financial Statements
September 30, 2020 and 2019

(3) Investments, Continued

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

(4) Property and Equipment

A summary of the Plan's property and equipment at September 30, 2020 and 2019, is as follows:

	Estimated Useful Lives	Balance at October 1, 2019	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2020
Office furniture and equipment	5 - 10 years	\$ 66,755	\$ 3,900	\$ -	\$ 70,655
Building improvement	5 - 10 years	24,202	-	-	24,202
Vehicles	5 years	<u>77,160</u>	<u>5,775</u>	<u>-</u>	<u>82,935</u>
		168,117	9,675	-	177,792
Less accumulated depreciation		<u>(135,253)</u>	<u>(8,653)</u>	<u>-</u>	<u>(143,906)</u>
Property and equipment, net		\$ <u>32,864</u>	\$ <u>1,022</u>	\$ <u>-</u>	\$ <u>33,886</u>
	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>

(5) Related Parties

As of September 30, 2020 and 2019, premiums receivable from the Chuuk State Government (CSG) amounted to \$340,731 and \$337,070, respectively, and related premium revenue earned for the years then ended amounted to \$1,108,398 and \$1,050,158, respectively. Of the \$340,731 of premiums receivable, \$193,169 relates to court judgments against CSG. The judgments have been obtained but funding for repayment of the receivables depends on future Chuuk State appropriations.

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

Notes to Financial Statements
September 30, 2020 and 2019

(5) Related Parties, Continued

Of the \$340,731 of premiums receivable, \$96,009 relates to payment of excess medical billings of various patients charged to CSG. As of September 30, 2020, the Plan recorded a related allowance for uncollectible accounts of \$96,009.

At September 30, 2020 and 2019, the Plan has outstanding premiums receivable from Chuuk Public Utility Corporation (CPUC) in the amount of \$100,439 and \$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.

During the year ended September 30, 2020, the Plan advanced \$131,332 to CSG, who has promised to repay, for emergency medical repatriation of a government official, of which, \$51,332 remain uncollected as of September 30, 2020. As of September 30, 2020, the Plan recorded a related allowance for uncollectible accounts of \$51,332.

During the year ended September 30, 2020, the Plan received a \$70,000 subsidy from FSM National Government to assist the Plan in paying excess medical billings.

(6) Subsequent Event

No events have occurred after September 30, 2020, but before October 13, 2021, the date of financial statements was available to be issued, that require consideration as adjustments to, or disclosures, in the financial statements.

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, 2020, 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 October 13, 2021.

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

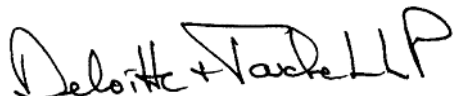
As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

The Plan's Response to Findings

The Plan's response to findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Plan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 + Tardell LLP". The signature is written in a cursive, stylized font.

October 13, 2021

**CHUUK STATE HEALTH CARE PLAN
(A Component Unit of the State of Chuuk)**

Schedule of Findings and Responses
Year Ended September 30, 2020

Finding No. 2020-001

Excess Medical Billings

Criteria: Payment of medical billings in excess of the maximum allowed coverage benefit appear to be the patient's responsibility and not CSHCP's.

Condition: During the year ended September 30, 2020, CSHCP paid excess medical billings of approximately \$109,000 to an off-island hospital on behalf of a patient. Such was initially recorded as a medical claims expense and thus, resulted in an adjustment of the patient's receivable. However, the balance was subsequently provided a 100% allowance as the collection of such is uncertain.

Subsequently, CSHCP has obtained a legal opinion indicating that such payment of excess medical billings of approximately \$109,000 was for an isolated case during the COVID-19 period.

Cause: There is no specific cause related to this matter but such payments should only be made after legal consultation.

Effect: The effect of the above condition may have a potential legal impact as to the appropriate use of CSHCP's available resources. If CSHCP is to continue this practice, CSHCP's available funds may not be sufficient to cover benefits in excess of Plan limits for other policy holders.

Recommendation: We recommend CSHCP establish clear policies and procedures over payment of medical billings in excess of allowable coverage. CSHCP should seek legal advice before paying excess medical billings.

Auditee Response and Corrective Action Plan: The patient with an overage medical billing (excess of his/her coverage benefit under the Plan) is responsible to pay to the Plan the full amount (often done on an installment basis). This practice has been going on for the past years, that the patient (enrollee) is paying his overage billing to the Plan on an installment basis or paid by FSM Congress through subsidy.

During the treatment of a patient, the Plan monitor closely with the medical coordinator on the running expense of that patient and give the green light to the coordinator when the patient is about to reach his/her maximum coverage benefit. Only critically needed procedure that will save the life of a patient is authorized. However, it is with the patient's consent and understanding that he/she is going bear the responsibility to pay for the excess amount.

During the FY 2020, the excess of medical billings is high due to the COVID-19 Pandemic that the Plan has no control of. The Plan will continue to work on this issue to establish appropriate policies on payment of overage medical billings.

**CHUUK STATE HEALTH CARE PLAN
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Unresolved Prior Year Findings
Year Ended September 30, 2020

There were no unresolved findings from prior year audits of the Plan.