

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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

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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, 2021 and 2020, 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, 2021 and 2020, 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

Lawsuits

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.

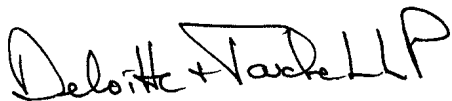
Other Matters

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 April 19, 2023, 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.



April 19, 2023

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

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

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 (FY) ended September 30, 2021. We encourage readers to consider this information in conjunction with the Plan's financial statements, which follow. FY 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 Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows.

FINANCIAL HIGHLIGHTS

- For the FYE September 30, 2021, the Plan's net position increased by \$1.179 million from \$1.934 million in the prior year to \$3.113 million. Due to the decrease in claims and premium losses our net position increased this year.
- During FY 2021, the Plan had premium revenues of \$1.709 million compared to \$1.700 million in FY 2020. The \$0.009 million increase (or .0052%) was the result of payroll inspection of the private sector. Medical claim expenses of \$.317 million in FY21 decreased by \$0.529 million (or 62.5 %) from \$.846 million in the prior year. The decrease in medical expenses was due to the pandemic.
- In FY 2021, the Plan had a net income of \$1.179 million compared with net income of \$0.489 million in FY 2020. The Plan had a much smaller medical expense in FY 2021 compared to FY2020.

STATEMENT OF NET POSITION

The Statement of Net Position presents the assets, liabilities and net position 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 noncurrent), 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.

The Plan's net position is divided into two major categories. The first category, net investment in capital assets, 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 a place, time or purpose restrictions on the use of the assets. All Plan assets that are not otherwise invested in capital assets are restricted by law to be used for health care services.

**CHUUK STATE HEALTH CARE PLAN
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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets:			
Current and other assets	\$ 3,093	\$ 1,986	\$ 1,540
Capital assets, net	<u>39</u>	<u>34</u>	<u>33</u>
Total assets	\$ <u>3,132</u>	\$ <u>2,020</u>	\$ <u>1,573</u>
Liabilities:			
Current liabilities	\$ <u>19</u>	\$ <u>85</u>	\$ <u>127</u>
Total liabilities	<u>19</u>	<u>85</u>	<u>127</u>
Net position:			
Net investment in capital assets	39	34	33
Restricted	<u>3,074</u>	<u>1,901</u>	<u>1,413</u>
Total net position	<u>3,113</u>	<u>1,935</u>	<u>1,446</u>
Total liabilities and net position	\$ <u>3,132</u>	\$ <u>2,020</u>	\$ <u>1,573</u>

The total assets at the end of fiscal year 2021 of \$3.132 million exceeds total liabilities of \$0.019 million, resulting in net position of \$3.113 million. Of total assets, \$2.489 million is held in cash, cash equivalents or short-term investments. Another \$0.428 million is in the form of accounts receivable. This contrasts to fiscal year 2020 when \$1.591 million of the total assets were held in cash, cash equivalents or short-term investments and accounts receivables were \$0.372 million. Liabilities of \$0.019 million in fiscal year 2021 compare with \$0.086 million in fiscal year 2020; a decrease of \$0.067 million (or 78%).

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 earnings from short-term investments of the Plan assets. Operating expenses can be classified into 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.

**CHUUK STATE HEALTH CARE PLAN
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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues:			
Premiums	\$ 1,709	\$ 1,700	\$ 1,581
Other revenues	32	18	10
Provisions for premium losses	-	(176)	(136)
Claims expenses	<u>(317)</u>	<u>(846)</u>	<u>(1,416)</u>
Total net revenues	<u>1,424</u>	<u>696</u>	<u>39</u>
Expenses:			
Other operating expenses	<u>286</u>	<u>284</u>	<u>294</u>
Operating earnings	1,138	412	(255)
Non-operating revenues:			
Net investment income (loss)	<u>40</u>	<u>7</u>	<u>(12)</u>
Earnings before contributions	<u>1,178</u>	<u>419</u>	<u>(267)</u>
Contribution from FSM National Government	<u>-</u>	<u>70</u>	<u>100</u>
Change in net position	1,178	489	(167)
Net position at beginning of the year	<u>1,935</u>	<u>1,446</u>	<u>1,613</u>
Net position at end of the year	\$ <u><u>3,113</u></u>	\$ <u><u>1,935</u></u>	\$ <u><u>1,446</u></u>

In fiscal year 2021, the Plan showed a positive net position in the aspects of its financial operations. The Statement of Revenues, Expenses, and Changes in Net Position reflects \$3.113 million in net position, with an overall \$1.178 million increase (or 61%) 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:

Premium revenues represent receipts from Plan enrollees. The following table indicates premium revenue activity for fiscal years 2021, 2020 and 2019 for both public and private sector enrollees:

Member Composition	Number Enrolled at 9/30/21	Premiums Paid (000's)	Number Enrolled at 9/30/20	Premiums Paid (000's)	Number Enrolled at 9/30/19	Premiums Paid (000's)
Public Sector	5,967	\$1,153	6,816	\$1,108	6,736	\$1,002
Private Sector	4,281	556	4,798	592	5,061	579
TOTALS	<u>10,248</u>	<u>\$1,709</u>	<u>11,614</u>	<u>\$1,700</u>	<u>11,797</u>	<u>\$1,581</u>

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The Chart reflects a decrease in public sector enrollees in FY 2021 from 6,816 in fiscal year 2020 to 5,967 (or 12.4%) in fiscal year 2021. The private sectors enrollees in fiscal year 2021 decreases from 4,798 in fiscal year 2020 to 4,281 in fiscal 2021. Due to the world's pandemic, private sectors were very much affected especially the tourism businesses. Payroll inspection of the private sector has a positive effect on private sector premium collections.

Management's control of claim expenses is ongoing. Due to the world's pandemic our medical cost and airfare is not much as of this fiscal year 2021. The recurring problem from prior years medical claim expenses comprising larger ratio of Plan premiums, leaving leftover to cover general and administrative expenses, shown in this table reflecting ten years of Plan operation:

<u>Fiscal Year</u>	<u>Premiums</u>	<u>Claims Expense</u>	<u>Claims as a % of Premiums</u>
2021	\$ 1,708,624	\$ 317,084	18%
2020	\$ 1,699,751	\$ 845,849	48%
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	\$ 1,139,526	76%
2014	\$ 1,367,637	\$ 1,123,795	82%
2013	\$ 1,431,694	\$ 1,126,562	79%
2012	\$ 1,095,027	\$ 806,379	74%

In fiscal year 2021, operating expenses of \$0.285 million represents a minimal increase from \$0.284 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 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 provided by operating activities to operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Cash provided by (used in):			
Operating activities	\$ 1,112	\$ 405	\$ (96)
Capital and noncapital related financing activities	(216)	160	(24)
Investing activities	<u>(877)</u>	<u>502</u>	<u>1</u>
Net change in cash and cash equivalents	19	1,067	(119)
Cash and cash equivalents, beginning of year	<u>1,362</u>	<u>295</u>	<u>414</u>
Cash and cash equivalents, end of year	\$ <u><u>1,381</u></u>	\$ <u><u>1,362</u></u>	\$ <u><u>295</u></u>

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The table indicates that the cash and cash equivalents increased \$0.019 million in fiscal year 2021, from \$1.362 million in fiscal 2020 to \$1.381 million in the current year. Notably, operating activities provided positive cash flow.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Plan's net investment in capital assets of \$39 thousand at fiscal 2021 year end increased from fiscal year 2020 of \$34 thousand. Further information on the Plan's capital assets can be found in note 4 to the financial statements.

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

Management's Discussion and Analysis for the year ended September 29, 2020 is set forth in the Plan's report on the audit of the financial statements, which is dated September 30, 2021. That Discussion and Analysis explains the major factors impacting the 2020 financial statements and can be obtained via the Office of the FSM National Public Auditor's website at www.fsmopa.fm.

ECONOMIC OUTLOOK

In fiscal year 2022, 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 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 2022.

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, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 1,380,978	\$ 1,361,419
Time certificates of deposit	100,000	100,000
Investments	1,007,834	129,906
Premiums receivable, net of an allowance for doubtful premiums of \$194,654 in 2021 and \$190,416 in 2020	382,434	370,078
Current portion of advances receivable	40,000	-
Other receivables	5,738	1,924
Total current assets	<u>2,916,984</u>	<u>1,963,327</u>
Advances receivable	160,000	-
Property and equipment, net	38,900	33,886
Intangible asset, net	16,750	23,000
Total assets	<u>\$ 3,132,634</u>	<u>\$ 2,020,213</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Medical claims and benefits payable	\$ 10,380	\$ 61,442
Accounts payable and accrued expenses	8,940	24,134
Total liabilities	<u>19,320</u>	<u>85,576</u>
Contingencies		
Net position:		
Net investment in capital assets	38,900	33,886
Restricted	3,074,414	1,900,751
Total net position	<u>3,113,314</u>	<u>1,934,637</u>
Total liabilities and net position	<u>\$ 3,132,634</u>	<u>\$ 2,020,213</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, 2021 and 2020

	2021	2020
Revenues:		
Premiums	\$ 1,708,624	\$ 1,699,751
Others	32,480	17,785
	1,741,104	1,717,536
Less: provision for premium losses	-	(175,693)
Net operating revenues	1,741,104	1,541,843
Benefits paid:		
Claims expenses	317,084	845,849
Net revenues	1,424,020	695,994
Other operating expenses:		
Salaries, wages and other benefits	115,192	103,830
Emergency relief	38,750	8,000
Meetings and board allowances	38,364	31,641
Legal fees	26,728	20,272
Depreciation and amortization	15,002	14,903
Office and computer supplies	13,325	13,914
Social security expense	10,957	10,220
Rent	7,200	7,200
Gasoline and fuel	3,955	4,663
Repair and maintenance	3,053	2,356
Representation	2,396	539
Telephone and telegraph	1,933	2,746
Travel	-	27,877
Coordinator's fee	-	27,600
Contractual services	-	2,300
Miscellaneous	8,710	6,285
Total other operating expenses	285,565	284,346
Earnings from operations	1,138,455	411,648
Nonoperating revenues, net:		
FSM National Government subsidy	-	70,000
Net investment earnings	40,222	7,084
Total nonoperating revenues, net	40,222	77,084
Change in net position	1,178,677	488,732
Net position at beginning of year	1,934,637	1,445,905
Net position at end of year	\$ 3,113,314	\$ 1,934,637

See accompanying notes to financial statements.

**CHUUK STATE HEALTH CARE PLAN
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Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Premiums received	\$ 1,727,748	\$ 1,612,521
Medical claims and benefits paid	(368,246)	(925,724)
Cash paid to employees and vendors	(247,675)	(282,215)
Net cash provided by operating activities	1,111,827	404,582
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(15,584)	(9,675)
Cash flows from noncapital financing activities:		
FSM National Government subsidy	-	70,000
Decrease in due from FSM National Government	-	100,000
Net cash provided by noncapital financing activities	-	170,000
Cash flows from investing activities:		
Advances receivable	(200,000)	-
Interest income received	1,244	1,570
(Increases in) sale of investments	(877,928)	500,500
Net cash (used in) provided by investing activities	(1,076,684)	502,070
Net change in cash and cash equivalents	19,559	1,066,977
Cash and cash equivalents at beginning of year	1,361,419	294,442
Cash and cash equivalents at end of year	\$ 1,380,978	\$ 1,361,419
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$ 1,138,455	\$ 411,648
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Provision for premium losses and others	40,796	175,693
Depreciation and amortization	15,002	14,903
Changes in assets and liabilities:		
Decrease (increase) in premiums receivable	(12,356)	4,686
Increase in due from State of Chuuk	-	(51,332)
(Increase) decrease in other receivables	(3,814)	(109,701)
Decrease in medical claims and benefits payable	(51,062)	(28,543)
Decrease in accounts payable and accrued expenses	(15,194)	(12,772)
Net cash provided by operating activities	\$ 1,111,827	\$ 404,582

See accompanying notes to financial statements.

**CHUUK STATE HEALTH CARE PLAN
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Notes to Financial Statements
September 30, 2021 and 2020

(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, 2021 and 2020

(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, 2021 and 2020, 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 is not otherwise invested in capital assets is 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
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Notes to Financial Statements
September 30, 2021 and 2020

(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, 2021 and 2020, the carrying amount of the Plan's cash and cash equivalents and time certificates of deposit was \$1,480,978 and \$1,461,419, respectively, and the corresponding bank balances were \$1,499,157 and \$1,519,952, respectively, maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021 and 2020, bank deposits in the amount of \$500,000 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 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.

Advances Receivable

Advances receivable comprise \$200,000 advanced to a Philippine based medical provider, repayable in 5 years at \$40,000 per year, unsecured, with interest at 10% per annum.

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

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

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.

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 2020 financial statements to conform to the 2021 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, 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.

During the year ended September 30, 2021, the Plan implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending September 30, 2022.

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

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

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. 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
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Notes to Financial Statements
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Notes to Financial Statements
September 30, 2021 and 2020

(3) Investments

Investments recorded at fair value are comprised of the following:

	<u>2021</u>	<u>2020</u>
Common stock	\$ 597,594	\$ 84,642
Fixed income securities	374,752	37,908
Money market funds	<u>35,488</u>	<u>7,356</u>
	<u>\$ 1,007,834</u>	<u>\$ 129,906</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, 2021 and 2020.

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, 2021 and 2020, the Plan's investments recorded at fair value were as follows:

	Hierarchy As of September 30, 2021			Moody's Credit Rating	Maturity At September 30, 2021				
	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	\$ 374,752	\$ -	\$ -	Aaa	\$ 374,752	\$ -	\$ -	\$ -	\$ -
Common stock	<u>597,594</u>	-	-		<u>597,594</u>	-	-	-	-
	972,346	-	-		972,346	-	-	-	-
Investments measured at amortized cost:									
Money market funds	<u>35,488</u>	-	-		<u>35,488</u>	-	-	-	-
Total investments	<u>\$ 1,007,834</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 1,007,834</u>	<u>\$ -</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, 2021 and 2020

(3) Investments, Continued

	Hierarchy			Moody's Credit Rating	Maturity At September 30, 2020	Maturity			
	As of September 30, 2020					Less than 1 year	1 - 5 years	6 -10 years	More than 10 years
	Level 1	Level 2	Level 3	No Maturity					
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>

(4) Property and Equipment

A summary of the Plan's property and equipment at September 30, 2021 and 2020, is as follows:

	Estimated Useful Lives	Balance at October 1, 2020	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2021
Office furniture and equipment	5 - 10 years	\$ 70,655	\$ 15,584	\$ -	\$ 86,239
Building improvement	5 - 10 years	24,202	-	-	24,202
Vehicles	5 years	<u>82,935</u>	<u>-</u>	<u>(1,822)</u>	<u>81,113</u>
		177,792	15,584	(1,822)	191,554
Less accumulated depreciation		<u>(143,906)</u>	<u>(8,748)</u>	<u>-</u>	<u>(152,654)</u>
Property and equipment, net		\$ <u>33,886</u>	\$ <u>6,836</u>	\$ <u>(1,822)</u>	\$ <u>38,900</u>
	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>

(5) Related Parties

As of September 30, 2021 and 2020, premiums receivable from the Chuuk State Government (CSG) amounted to \$358,322 and \$340,731, respectively, and related premium revenue earned from that entity for the years then ended amounted to \$1,152,895 and \$1,108,398, respectively. Of the \$358,322 and \$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, 2021 and 2020

(5) Related Parties, Continued

Of the \$358,322 and \$340,731 of premiums receivable at September 30, 2021 and 2020, respectively, \$96,009 relates to payment of excess medical billings of various patients charged to CSG. As of September 30, 2021, the Plan recorded a related allowance for uncollectible accounts of \$96,009.

At September 30, 2021 and 2020, 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, 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, 2021. As of September 30, 2020, the Plan corded a related allowance for uncollectible accounts of \$51,332.

(6) Subsequent Event

No events have occurred after September 30, 2021, but before April 19, 2023, 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 of September 30, 2021, 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 April 19, 2023.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Compliance and Other Matters

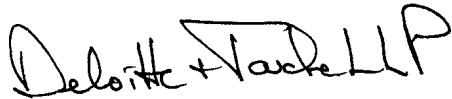
As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as finding number 2021-002.

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 + Tardif LLP". The signature is written in a cursive, flowing style.

April 19, 2023

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

Schedule of Findings and Responses
Year Ended September 30, 2021

Finding No 2021-001

Interest Bearing Advance Deposit

Criteria: Interest bearing deposits with a vendor should be recorded as deposits and should be supported by appropriate due diligence documenting the credit worthiness of the vendor, the basis of the vendor selection, and the tax ramifications, if any, that result from the transaction.

Condition: During fiscal year 2021, the Plan entered into an interest bearing vendor deposit. The deposit is to be repaid with interest over a five-year period. Based on reading the underlying agreement and per discussion with management, the following matters resulted:

1. Recordation – The Plan recorded the deposit as an investment. The transaction does not involve an equity ownership as it merely represents an interest bearing deposit that is represented to allow the Plan to obtain discounts on future interaction with the vendor. This transaction is a vendor deposit and does not appear to represent an investment and was accordingly recorded as a deposit in the final Plan financial statements.
2. Due Diligence – We inquired as to due diligence performed on the vendor to provide Plan assurance that the vendor possessed the financial wherewithal to repay the advance and to honor its commitment. It appears that the vendor’s financial standing was not subject to due diligence.
3. Terms and Conditions of the Agreement – Board minutes characterize the agreement as an investment. The agreement was subject to the following Board discussions and was represented to have been vetted by Legal Counsel:

- . March 3, 2021
- . March 15, 2021
- . March 24, 2021
- . March 31, 2021
- . April 15, 2021
- . April 22, 2021
- . May 20, 2021 (which represented final board approval)

The agreement states that the Plan’s purpose is to expedite its business ventures in the Philippines. The Plan has not previously conducted a trade or business in the Philippines and if this is truly the case, the Plan should have entered into discussions with relevant Philippines tax authorities as to what would be entailed in conducting a trade or business in the Philippines. While the Plan is a Component Unit of the Chuuk State Government, because it also enrolls non-State government employees, its tax status in the Philippines could be open to discussion. Additionally, many countries require advice if an entity loans funds into its jurisdiction and in some countries, failure to so notify the Government could prevent the lender from legally recovering its advance or the Plan may be subject to withholding taxes.

The Agreement further states that the Plan will be given special rates. There is no detail in the Agreement that spells out what these special rates are, how they will be measured, or an estimation of how the Plan will benefit from these special rates. When we inquired of the Plan, no documentation of the attendant methodology was provided.

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

Schedule of Findings and Responses, Continued
Year Ended September 30, 2021

Finding No 2021-001

Interest Bearing Advance Deposit, Continued

The April 22, 2021 minutes state that the Plan may receive its money back at any time, but the Agreement states that a lock in period of not less than 5 or more years exists. The manner in which the Board addressed this discrepancy was not provided. We note that a Board member raised this issue in the 9-15-2021 minutes.

Additionally, we were advised by the Plan that \$20,000 was paid to it by the vendor subsequent to year end. We inquired as to whether this constituted interest or a repayment of the advance and no documentation was provided to substantiate which was the case.

Cause: The cause of the above conditions appears to relate to potentially inadequate due diligence associated with this transaction, despite the number of the Board meetings associated with the discussion and the cost of those Board meetings.

Effect: The effect of the condition is that it may be difficult to determine the manner in which the Plan obtained benefit from this transaction and such may expose the Plan to possible concerns with conducting a trade or business in the Philippines.

Recommendation: We recommend that the Plan obtain professional assistance to resolve the matters set forth above.

Auditee Response and Corrective Action Plan: As defined in the Chuuk State Health Care Act of 1994, Subchapter B, Section 1025, (7), one of the Corporate Powers of the Plan is "To lend money for its corporate purposes, and to invest or reinvest its funds". So, the former director and board members of CSHCP are well within the confines of law when they negotiated and transacted this business investment. They also acted in good faith because the Plan should be earning an interest income of \$100,000.00 (ONE HUNDRED THOUSAND US DOLLARS) in five years with just a \$200,000.00 investment. The plan already received \$20,000.00 interest payment for the 1st year and will be receiving another \$20,000.00 this coming May for the 2nd year. The Plan will discuss the issue with its legal counsel and work on the possibility to amend the Business Investment Memorandum of Agreement to include Global, Inc. (sister company of Global MD Health Care Systems, Inc.) which is based and incorporated here in Chuuk, FSM to facilitate the payments. To avoid exposing the Plan to possible concerns with conducting a trade or business in the Philippines.

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

Schedule of Findings and Responses, Continued
Year Ended September 30, 2021

Finding No. 2021-002

Board Compensation

Criteria: Board compensation should be reasonable and be in accordance with guidelines set forth by law.

Condition: The Board met frequently (often bi-weekly) during Fiscal Year 2021 at a rate of \$250 per meeting. Meetings appear to have included food and beverages. Additionally, the Board and certain management received COVID relief payments of \$39,000, which were represented to having been authorized by the Board, but attendant minutes have not been provided. Furthermore, the Plan acquired cell phones for Board members. It does not appear as if the Board payments (as well as certain payments to management) were subject to FSM withholding taxes or to social security withholdings. We could not determine if the totality of these payments was envisioned or was authorized by the Chuuk State Legislature. Additionally, certain supplies in the Chuuk State were obtained by Board members, who then obtained reimbursement from the Plan. The reasoning for Board members to act in this capacity was not provided.

Cause: The cause of this condition appears to be payments that may not align with approved requirements.

Effect: The effect of this condition is that uncertainty exists with respect to the appropriateness of total Board compensation and if potential tax withholdings result.

Recommendation: We recommend that the Chuuk State Legislature direct the Chuuk State Public auditor to perform an audit of Board compensation for fiscal years 2021 and 2020 and advise the Legislature of matters required for their actions.

Auditee Response and Corrective Action Plan: The current CSHCP Management agrees to the findings and apologized for the misinterpretation of the law that caused this condition.

CSHCP Management will immediately inform the Board and recommend based on the Chuuk State Health Care Plan of 1994, Subchapter B, Section 1020 which states that "Board members who are employees of the Chuuk State Government or of any other cooperating entity shall serve without compensation paid by the Plan, but may continue to receive their regular salaries. Board members who are not employees of the Chuuk State Government or of any other cooperating entities shall be entitled to compensation at rates established by the Board but not to exceed \$20.00 per day while attending to the business of the Plan. Board members shall be entitled to payment for travel expenses necessarily incurred when serving the Plan away from their places of residence at rates not to exceed that accorded to Chuuk State Government employees".

The current CSHCP Management will cooperate fully with the Chuuk State Public Auditor should a further audit to this matter is required by the Legislature.

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

Unresolved Prior Year Findings
Year Ended September 30, 2021

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