

*Financial Statements and
Required Supplementary Information*

Chuuk State Health Care Plan
(A Component Unit of the State of Chuuk)

*Year Ended September 30, 2022
with Report of Independent Auditors*



Chuuk State Health Care Plan
(A component unit of the state of Chuuk)

Financial Statements and Required Supplementary Information

Year Ended September 30, 2022

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Report of Independent Auditors

The Board of Trustees
Chuuk State Health Care Plan

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Chuuk State Health Care Plan (the Plan), a component unit of the State of Chuuk, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

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, 2022, and the changes in its net position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Litigation Settlement Receivable

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. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Plan's ability to continue as a going concern for a reasonable period of time.

Auditors' Responsibility for the Audit of the Financial Statements, continued

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 4 through 9 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Government 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 GAAS, 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 financial statements, and other knowledge we obtained during our audit of the 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 December 28, 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.

Ernst + Young LLP

December 28, 2023

Chuuk State Health Care Plan
(A Component Unit of the State of Chuuk)

Management's Discussion and Analysis

Year Ended September 30, 2022

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, 2022. We encourage readers to consider this information in conjunction with the Plan's financial statements, which follow. FY 2021 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, 2022, the Plan's net position increased by \$0.855 million from \$3.113 million in the prior year to \$3.968 million. Due to minimal claims and premium losses, our net position increased this year.
- During FY 2022, the Plan had premium revenues of \$1.713 million compared to \$1.709 million in FY 2021. The \$0.004 million increase (or 0.0023%) was the result of payroll inspection of the private sectors. Medical claim expenses of \$0.428 million in FY 2022 increased by \$0.111 million (or 35 %) from \$0.317 million in the prior year. The increase in medical expenses was due to the opening of the borders.
- In FY 2022, the Plan had a net income of \$0.855 million compared with net income of \$1.179 million in FY 2021. The Plan had a higher medical expense in FY 2022 compared to FY 2021.

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.

Chuuk State Health Care Plan
(A Component Unit of the State of Chuuk)

Management's Discussion and Analysis, continued

Statement of Net Position, continued

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.

Summary Statement of Net Position
(In '000's)

	<u>2022</u>	<u>2021</u>
Assets:		
Current and other assets	\$3,999	\$3,093
Capital assets, net	<u>39</u>	<u>39</u>
Total assets	<u>\$4,038</u>	<u>\$3,132</u>
Liabilities:		
Current liabilities	\$ <u>70</u>	\$ <u>19</u>
Total liabilities	<u>70</u>	<u>19</u>
Net position:		
Net investment in capital assets	39	39
Restricted	<u>3,929</u>	<u>3,074</u>
Total net position	<u>3,968</u>	<u>3,113</u>
Total liabilities and net position	<u>\$4,038</u>	<u>\$3,132</u>

The total assets at the end of fiscal year 2022 of \$4.038 million exceeds total liabilities of \$0.70 million, resulting in net position of \$3.968 million. Of total assets, \$3.511 million is held in cash, cash equivalents or short-term investments. Another \$0.277 million is in the form of accounts receivable. This contrasts to fiscal year 2021 when \$2.489 million of the total assets were held in cash, cash equivalents or short-term investments and accounts receivables were \$0.428 million. Liabilities of \$0.070 million in fiscal year 2022 compare with \$0.019 million in fiscal year 2021; a decrease of \$0.051 million (or 73%).

Chuuk State Health Care Plan
(A Component Unit of the State of Chuuk)

Management's Discussion and Analysis, continued

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.

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

	<u>2022</u>	<u>2021</u>
Revenues:		
Premiums	\$1,713	\$1,709
Other revenues	25	32
Claims expenses	(428)	(317)
Total net revenues	<u>1,310</u>	<u>1,424</u>
Expenses:		
Other operating expenses	<u>304</u>	<u>286</u>
Operating earnings	1,006	1,138
Non-operating revenues:		
Net investment income (loss)	(171)	40
Other income	<u>20</u>	<u>---</u>
Earnings before contributions	<u>855</u>	<u>1,178</u>
Change in net position	855	1,178
Net position at beginning of the year	<u>3,113</u>	<u>1,935</u>
Net position at end of the year	<u>\$3,968</u>	<u>\$3,113</u>

In fiscal year 2022, 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 \$3.968 million in net position, with an overall \$0.855 million increase (or 27%) in net position from the prior year.

Chuuk State Health Care Plan
(A Component Unit of the State of Chuuk)

Management's Discussion and Analysis, continued

Statement of Revenues, Expenses, And Changes in Net Position, continued

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 2022, and 2021 for both public and private sector enrollees:

<u>Member Composition</u>	<u>Number Enrolled at 9/30/22</u>	<u>Premiums Paid (000's)</u>	<u>Number Enrolled at 9/30/21</u>	<u>Premiums Paid (000's)</u>
Public Sector	5,010	\$1,141	5,967	\$1,153
Private Sector	3,888	572	4,281	556
TOTALS	<u>8,898</u>	<u>\$1,713</u>	<u>10,248</u>	<u>\$1,709</u>

The Chart reflect a decrease in public sector enrollees in FY 2022 from 5,967 in fiscal year 2021 to 5,010 (or 16%) in fiscal year 2022. The private sectors enrollees in fiscal year 2022 decreases from 4,281 in fiscal year 2021 to 3,888 in fiscal 2022. Now that the borders are open private sectors will be back to business especially the tourism businesses. Payroll inspection will be continued this coming FY to the private sectors.

Management's control of claim expenses is still there. Due to the end of pandemic our medical cost and airfare is starting to get higher of this fiscal year 2022. 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>
2022	\$ 1,738,063	\$ 427,557	25%
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%

Chuuk State Health Care Plan
(A Component Unit of the State of Chuuk)

Management's Discussion and Analysis, continued

Statement of Revenues, Expenses, And Changes in Net Position, continued

In fiscal year 2022, operating expenses of \$0.304 million represents increase from \$0.286 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 used in operating activities to operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

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

	<u>2022</u>	<u>2021</u>
Cash provided by:		
Operating activities	\$1,183	\$1,112
Capital and noncapital related financing activities	(9)	(216)
Investing activities	<u>51</u>	<u>(877)</u>
Net change in cash and cash equivalents	1,225	19
Cash and cash equivalents, beginning of year	<u>1,381</u>	<u>1,362</u>
Cash and cash equivalents, end of year	<u>2,606</u>	<u>\$1,381</u>

The table indicates that the cash and cash equivalents increased \$1.225 million in fiscal year 2022, from \$1.381 million in fiscal 2021 to \$2.606 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 2022 year end is the same from fiscal year 2021 of \$39 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.

Chuuk State Health Care Plan
(A Component Unit of the State of Chuuk)

Management's Discussion and Analysis, continued

Capital Asset and Debt Administration, continued

Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in the Plan's report on the audit of the financial statements, which is dated April 29, 2023. That Discussion and Analysis explains the major factors impacting the 2021 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
(A component unit of the state of Chuuk)

Statement of Net Position

September 30, 2022

Assets

Current assets:

Cash and cash equivalents	\$2,605,762
Time certificates of deposit	100,000
Investments	805,525
Premiums receivable, net of an allowance for doubtful premiums of \$194,654 in 2022	271,551
Other receivables	<u>5,738</u>

Total current assets 3,788,576

Advances receivable	200,000
Property and equipment, net	39,299
Intangible asset, net	<u>10,500</u>

Total assets \$4,038,375

Liabilities and net position

Current liabilities:

Medical claims and benefits payable	\$ 53,035
Accounts payable and accrued expenses	<u>17,023</u>

Total liabilities 70,058

Contingencies

Net position:

Net investment in capital assets	39,299
Restricted	<u>3,929,018</u>

Total net position 3,968,317

Total liabilities and net position \$4,038,375

See accompanying notes.

Chuuk State Health Care Plan
(A component unit of the state of Chuuk)

Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2022

Revenues:	
Premiums	\$1,712,907
Others	<u>25,156</u>
Net operating revenues	1,738,063
Benefits paid:	
Claims expenses	<u>427,557</u>
Net revenues	1,310,506
Other operating expenses:	
Salaries, wages and other benefits	108,099
Legal fees	41,978
Meetings and board allowances	33,354
Emergency relief	32,343
Depreciation and amortization	15,212
Office and computer supplies	14,248
Social security tax	12,174
Coordinator's fee	7,800
Rent	7,200
Gasoline and fuel	4,776
Repair and maintenance	2,571
Communication	1,880
Representation	1,838
Miscellaneous	<u>20,931</u>
Total other operating expenses	304,404
Earnings from operations	1,006,102
Nonoperating income (expense):	
Interest income	20,021
Net investments loss	<u>(171,120)</u>
Total nonoperating expense, net	(151,099)
Change in net position	855,003
Net position at beginning of year	<u>3,113,314</u>
Net position at end of year	<u>\$3,968,317</u>

See accompanying notes.

Chuuk State Health Care Plan
(A component unit of the state of Chuuk)

Statement of Cash Flows

Year Ended September 30, 2022

Cash flows from operating activities:	
Premiums received	\$1,848,946
Medical claims and benefits paid	(384,903)
Cash paid to suppliers for goods and services	(170,302)
Cash paid to employees	<u>(110,806)</u>
Net cash provided by operating activities	1,182,935
Cash flows from capital and related financing activities – acquisition of property and equipment	(9,360)
Cash flows from investing activities:	
Interest income	20,021
Proceeds from sale of investments	<u>31,188</u>
Net cash provided by investing activities	51,209
Net change in cash and cash equivalents	1,224,784
Cash and cash equivalents at beginning of year	<u>1,380,978</u>
Cash and cash equivalents at end of year	<u>\$2,605,762</u>
Reconciliation of earnings from operations to net cash provided by operating activities:	
Earnings from operations	\$1,006,102
Adjustments to reconcile earnings from operations to net cash provided by operating activities:	
Depreciation and amortization	15,212
Changes in assets and liabilities:	
Decrease in premiums receivable	110,883
Increase in medical claims and benefits payable	42,655
Increase in accounts payable and accrued expenses	<u>8,083</u>
Net cash provided by operating activities	<u>\$1,182,935</u>

See accompanying notes.

Chuuk State Health Care Plan
(A component unit of the state of Chuuk)

Notes to Financial Statements

September 30, 2022

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 and Pharmacy, Genesis Pharmacy Clinic and Global Pharmacy, and seven hospitals in the Philippines – Cardinal Santos Medical Center, the Medical City, Manila Doctors Hospital, Delos Santos Hospital, Chong Hua Hospital, St. Luke’s Medical Center – Global and St. Luke’s Medical Center – Quezon City 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:

Chuuk State Health Care Plan
(A component unit of the state of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

- 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.

- Restricted:

- Nonexpendable – Net position subject to externally imposed stipulations that require the Plan to maintain them permanently. At September 30, 2022, 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.

Chuuk State Health Care Plan
(A component unit of the state of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net position and 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, 2022, the carrying amount of the Plan's cash and cash equivalents and time certificates of deposit was \$2,705,762, and the corresponding bank balances were \$2,714,892 maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, bank deposits in the amount of \$500,000 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.

Chuuk State Health Care Plan
(A component unit of the state of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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 as a reduction to operating revenue. 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 in May 2021, due in full after 5 years, unsecured with interest at 10% per annum payable in 5 years.

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.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. As of September 30, 2022, the Plan has no items that qualify for reporting in this category.

Chuuk State Health Care Plan
(A component unit of the state of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. As of September 30, 2022, the Plan has no items that qualify for reporting in this category.

Taxes

The Plan exists and operates solely for the benefit of the public and shall be exempted from an State or Municipal taxes or assessment on any of its property, operations and activities. The Plan shall be liable for employees' contributions to the National Social Security System or other employees' benefits of the State or FSM National Governments, if any, in such manner as provided by law.

Recently Adopted Accounting Pronouncements

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. The adoption of GASB Statement No. 87 did not have an effect on beginning net position. The adoption of GASB Statement No. 87 did not have an effect on the Plan's financial statements.

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. The adoption of GASB Statement No. 89 did not have an effect on the Plan's financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 did not have an effect on the Plan's financial statements.

Chuuk State Health Care Plan
(A component unit of the state of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address the accounting and financial reporting effects that result from the replacement of IBORs with other reference rates in order to preserve the reliability, consistency, and comparability of reported information. The adoption of GASB Statement No. 93 did not have an effect on the Plan’s financial statements.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (a) 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; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (c) 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. The adoption of GASB Statement No. 97 did not have an effect on the Plan’s financial statements.

Upcoming Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method 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 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. GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

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 (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange

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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. 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. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.
- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA,

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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- 6) and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- 7) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issues Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

The Plan is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

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.

Subsequent Events

The Plan has evaluated subsequent events through December 28, 2023, which is also the date the financial statements were available to be issued.

Chuuk State Health Care Plan
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Notes to Financial Statements, continued

3. Investments

Investments recorded at fair value are comprised of the following:

	<u>2022</u>
Common stock	\$455,815
Exchange-traded funds	339,592
Real estate and tangibles	<u>10,118</u>
	<u>\$805,525</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, 2022.

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.

The following table set forth by fair value hierarchy level the Plan's assets carried at fair value as of September 30, 2022:

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Moody's Credit Rating</u>
Investments by fair value level:					
Common stock	\$455,815	\$455,815	\$ ---	\$ ---	Aaa
Exchange-traded funds	339,592	339,592	---	---	
Real estate and tangibles	<u>10,118</u>	<u>10,118</u>	---	---	
Total investments	<u>\$805,525</u>	<u>\$805,525</u>	<u>\$ ---</u>	<u>\$ ---</u>	

Chuuk State Health Care Plan
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Notes to Financial Statements, continued

4. Property and Equipment

A summary of the Plan's property and equipment at September 30, 2022, is as follows:

	Estimated Useful <u>Lives</u>	Balance at October <u>1, 2021</u>	Transfers and <u>Additions</u>	Balance at September <u>30, 2022</u>
Office furniture and equipment	5 - 10 years	\$ 86,239	\$5,983	\$ 92,222
Building improvement	5 - 10 years	24,202	3,377	27,579
Vehicles	5 years	<u>81,113</u>	<u>---</u>	<u>81,113</u>
		191,554	9,360	200,914
Less accumulated depreciation		<u>(152,654)</u>	<u>(8,961)</u>	<u>(161,615)</u>
Property and equipment, net		<u>\$ 38,900</u>	<u>\$ 399</u>	<u>\$ 39,299</u>

5. Related Parties

As of September 30, 2022, premiums receivable from the Chuuk State Government (CSG) amounted to \$341,159 and related premium revenue earned from that entity for the year then ended amounted to \$1,141,247. Of the \$341,159 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.

Of the \$341,159 of premiums receivable at September 30, 2022, \$96,009 relates to payment of excess medical billings of various patients charged to CSG. As of September 30, 2022, the Plan recorded a related allowance for uncollectible accounts of \$96,009.

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, \$91,332 remain uncollected as of September 30, 2022. As of September 30, 2022, the Plan recorded a related allowance for uncollectible accounts of \$91,332.

6. Contingencies

The Plan is involved in certain legal actions and claims against other governmental or private businesses operating in the State of Chuuk for the recovery of premiums that are in various stages of court proceedings or settlement discussions. Other than the matter against CSG as discussed in Note 5 and recovery from Chuuk Public Utility Corporation recorded in prior period and collected during the year ended September 30, 2022, no gains or recoveries have been recorded in the accompanying financial statements.



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Report of Independent Auditors 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, 2022, 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 December 28, 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 a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001 that we consider to be significant deficiency.

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 2022-001.

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.

The signature of Ernst + Young LLP is written in a cursive, handwritten style in black ink.

December 28, 2023

Chuuk State Health Care Plan
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Schedule of Findings and Responses

Year Ended September 30, 2022

Finding No. 2022-001

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 2022 at a rate of \$250 per meeting. Additionally, the Board and certain management received COVID relief payments of \$16,500, 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 2022 and 2021 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.

Chuuk State Health Care Plan
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Schedule of Findings and Responses, continued

Finding No. 2022-001

Board Compensation, continued

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.