

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

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

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

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Years Ended September 30, 2013 and 2012

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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, 2013 and 2012, and the related statements of revenue, expenses and changes in 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, 2013 and 2012, 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.

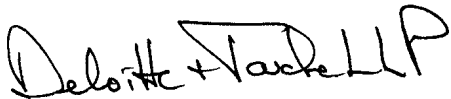
## ***Other Matters***

### ***Required Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2014 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 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 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.

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

June 24, 2014

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

Management's Discussion and Analysis  
Years Ended September 30, 2013 and 2012

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, 2013. We encourage readers to consider this information in conjunction with the Plan's financial statements, which follow. FY 2013 and 2012 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, 2013, the Plan's net position increased \$0.08 million (up 7%), from \$1.213 million in the prior year to \$1.292 million. The increase mainly comes from the premiums on the one (1%) percent increase from the government sector, uncollected missing premium from government employees and from the Special Education unpaid premium. This is the fourth increase in net position since fiscal year 2006.
- During FY 2013, the Plan had premium revenues of \$1.432 million compared to \$1.095 million in FY 2012. The \$0.337 million increase (or 30.8%) was the result of the revenue realized from the court order on Special Education that covers the past due collection from 2009 to 2012; however, the adherence to the deadline of remittance, rigorous collection, and the new premiums from private sector enrollees the revenues became stabilized in FY 2013. Medical claim expenses of \$1.126 million in FY 2013 increased by \$0.32 million (or 39.7%) from \$0.806 million in the prior year. This increase in medical claims expenses reflects the results from the greater plan utilization by enrollees and higher claims expense per patient.
- During FY 2013, the Plan had net income of \$0.078 million compared with the net income of \$0.098 million in FY 2012. The Plan paid legal fees during the filing of the case against Chuuk State Government, Special Education and the Chuuk Public Utilities Corporation ("CPUC") in order to increase premium collection.

**STATEMENT OF NET POSITION**

The Statement of Net Position presents the assets, liabilities and net position of the Plan as of the FYE 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 current and noncurrent assets and liabilities is discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Position are able to determine the assets available 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) that the Plan has available for future expenses by the Plan.

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

**SUMMARY STATEMENTS OF NET POSITION  
(In '000's)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current and other assets	\$ 1,452	\$ 1,235	\$ 1,194
Capital assets, net	<u>18</u>	<u>28</u>	<u>31</u>
Total assets	\$ <u>1,470</u>	\$ <u>1,263</u>	\$ <u>1,225</u>
Liabilities:			
Current liabilities	\$ <u>178</u>	\$ <u>50</u>	\$ <u>118</u>
Total liabilities	<u>178</u>	<u>50</u>	<u>118</u>
Net position:			
Net investment in capital assets	18	28	31
Restricted	<u>1,274</u>	<u>1,185</u>	<u>1,076</u>
Total net position	<u>1,292</u>	<u>1,213</u>	<u>1,107</u>
Total liabilities and net position	\$ <u>1,470</u>	\$ <u>1,263</u>	\$ <u>1,225</u>

The total assets at the end of FY 2013 of \$1.470 million exceed the total liabilities of \$0.178 million, resulting in net position of \$1.292 million. Of the total assets, \$1.011 million are held in cash, cash equivalents or short-term investments. Another \$0.391 million are in the form of accounts receivable. This contrasts with FYE 2012 when \$1.002 million of the total assets were held in cash, cash equivalents or short-term investments and accounts receivables were \$0.183 million. Liabilities of \$0.178 million in FY 2013 compare unfavorably with the \$0.050 million in FY 2012, an increase of \$0.128 million (or 256%).

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

Changes in net position are based on the activities presented in the Statements 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.

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

**CHUUK STATE HEALTH CARE PLAN  
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**SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION**

(In '000's)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Premiums	\$ 1,432	\$ 1,095	\$ 1,177
Other Revenues	10	7	5
Provisions for Premium losses	-	-	4
Claims expenses	<u>(1,126)</u>	<u>(806)</u>	<u>(740)</u>
Total net revenues	<u>316</u>	<u>296</u>	<u>446</u>
Expenses:			
Other operating expenses	<u>277</u>	<u>246</u>	<u>226</u>
Operating earnings	39	50	220
Non-operating revenues:			
Subsidy from FSM National Government	7	24	13
Net investment earnings	<u>32</u>	<u>24</u>	<u>(1)</u>
Net income	78	98	232
Capital contribution from FSM National Government	<u>1</u>	<u>8</u>	<u>15</u>
Change in net position	79	106	247
Net position at beginning of year	<u>1,213</u>	<u>1,107</u>	<u>860</u>
Net position at end of year	\$ <u>1,292</u>	\$ <u>1,213</u>	\$ <u>1,107</u>

In FY 2013, the Plan showed positive improvements in virtually every aspect of its financial operations. The Statement of Revenues, Expenses, and Changes in Net Position reflects \$1.29 million in net position, with an overall \$0.08 increase (or 7%) in net position from the prior year.

Premium revenues represent receipts from Plan enrollees. The following table indicates premium revenue activity for FYs 2013, 2012 and 2011 for both public and private sector enrollees:

	FY 2013		FY 2012		FY 2011	
	# ENROLLED	PREMIUMS	# ENROLLED	PREMIUMS	# ENROLLED	PREMIUMS
		PAID		PAID		PAID
MEMBER COMPOSITION	at 9-30-13	(000's)	at 9-30-12	(000's)	at 9-30-11	(000's)
Public Sector	9,075	\$ 1,009	10,359	\$ 847	10,250	\$ 779
Private Sector	4,900	423	3,709	248	2,437	397
<b>TOTALS</b>	<b>13,975</b>	<b>\$ 1,432</b>	<b>14,068</b>	<b>\$ 1,095</b>	<b>12,687</b>	<b>\$ 1,176</b>

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The table reflects the decrease in public sector enrollees in FY 2013, decreasing from 10,359 as of September 30, 2012 to 9,075 (or 12.4%) as of September 30, 2013. This is due to the soft landing program in the government education sector. The private sectors enrollees in FY 2013 increased from 3,709 as of September 30, 2012 to 4,900 (or 32%) as of September 30, 2013. This is due to the positive response towards admonition to the companies who are understating employee enrollment data to avoid court litigation orders.

Management's control of claim expenses continues the positive turnaround that commenced in FY 2013. The recurring problem from prior years of medical claim expenses comprising ever larger ratio of Plan premiums, leaving little leftover to cover general and administrative expenses, has been broken as shown in this table reflecting five years of Plan operations:

<u>Year Ended September 30,</u>	<u>Premiums</u>	<u>Claims Expense</u>	<u>Claims as a % of Premiums</u>
2013	\$ 1,431,694	\$ 1,126,562	79%
2012	\$ 1,095,027	\$ 806,379	74%
2011	\$ 1,176,426	\$ 739,663	63%
2010	\$ 989,040	\$ 642,557	65%
2009	\$ 837,430	\$ 756,292	90%
2008	\$ 775,114	\$ 758,062	98%
2007	\$ 834,562	\$ 779,597	93%
2006	\$ 872,006	\$ 639,251	73%

Management's promotion of competition among third-party care providers in the Philippines has been a major factor in controlling claims expenses.

In FY 2013, operating expenses of \$0.277 million increased from \$0.246 million incurred in the prior year. The Plan spent legal fees during the filing of the case and won against the Special Education, and additionally, the CPUC case is now pending for court judgment. Even with rising Plan enrollments, operating expenses are controlled within net revenues because of stringent control of Plan operating expenses by management oversight and Board policies.

**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 activities during the year. The statement is divided into four parts. The first part deals with operating cash flows from noncapital financing activities of the Plan. The second 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 third section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fourth 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 Position .



**CHUUK STATE HEALTH CARE PLAN  
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Management's Discussion and Analysis  
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**SUMMARY STATEMENT OF CASH FLOWS  
(In '000's)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash provided by (used in):			
Operating activities	\$ (30)	\$ 99	\$ 177
Capital and noncapital related financing activities	7	24	13
Investing activities	<u>5</u>	<u>(97)</u>	<u>(96)</u>
Net change in cash and cash equivalents	(18)	26	94
Cash and cash equivalents, beginning of year	<u>533</u>	<u>507</u>	<u>413</u>
Cash and cash equivalents, end of year	\$ <u>515</u>	\$ <u>533</u>	\$ <u>507</u>

The table indicates that cash and cash equivalents decreased \$0.01 million in FY 2013, from \$0.53 million as of September 30, 2012 to \$0.52 million as of September 30, 2013. Notably, for the first time since FY 2010, operating activities provided negative cash flow (\$0.30 million) as the Plan staunched the cash outflows from operating losses that had eroded the Plan's cash position in prior fiscal years. Supplementing these results in FY 2013 was a \$7 thousand subsidy from the FSM National Government.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

The Plan's net investment in capital assets of \$0.018 million as of September 30, 2013 decreased from \$0.028 million as of September 30, 2012.

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

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

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in the Plan's report on the audit of financial statements, which is dated June 13, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be obtained via the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

**ECONOMIC OUTLOOK**

In FY 2014, Plan management will continue its focus on collecting accounts receivables, increasing Plan enrollments, and reducing medical claim and other operating expenses. Plan management will specifically focus on collecting multi-year delinquent premiums from the CPUC, Special Education and the past due premium from the 1% increase including the missing premium from government sectors, as the Plan takes steps to rationalize its operations. Additionally, aggressive targeting of private sector companies for new enrollments will continue in FY 2014 as the construction sector fuels a wave of private sector growth in Chuuk State.

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Management's Discussion and Analysis  
Years Ended September 30, 2013 and 2012

**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, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 515,456	\$ 533,158
Time certificates of deposit	200,000	200,000
Investments	295,473	269,235
Premiums receivable, net of an allowance for doubtful premiums of \$42,872 in 2013 and 2012	390,648	168,264
Other receivables	-	14,431
	<hr/>	<hr/>
Total current assets	1,401,577	1,185,088
Due from the State of Chuuk	50,000	50,000
Property and equipment, net	18,372	27,708
	<hr/>	<hr/>
Total assets	<u>\$ 1,469,949</u>	<u>\$ 1,262,796</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Medical claims and benefits payable	\$ 133,737	\$ 38,265
Accounts payable and accrued expenses	44,423	11,776
	<hr/>	<hr/>
Total liabilities	178,160	50,041
Net position:		
Net investment in capital assets	18,372	27,708
Restricted	1,273,417	1,185,047
	<hr/>	<hr/>
Total net position	1,291,789	1,212,755
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 1,469,949</u>	<u>\$ 1,262,796</u>

See accompanying notes to financial statements.

**CHUUK STATE HEALTH CARE PLAN**  
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Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2013 and 2012

	2013	2012
Revenues:		
Premiums	\$ 1,431,694	\$ 1,095,027
Others	10,425	6,733
	1,442,119	1,101,760
Benefits paid:		
Claims expenses	1,126,562	806,379
Net revenues	315,557	295,381
Other operating expenses:		
Salaries, wages and other benefits	87,145	93,886
Coordinator's fee	57,300	33,500
Travel	45,631	35,805
Legal fees	31,980	25,295
Depreciation	10,860	11,282
Social security expense	8,838	8,938
Board allowance	6,929	6,587
Office and computer supplies	4,938	7,574
Telephone and telegraph	4,587	3,808
Utilities	3,308	2,847
Rent	3,150	5,400
Gasoline and fuel	2,965	2,932
Promotional	2,587	3,168
Repair and maintenance	1,959	3,259
Miscellaneous	4,355	1,810
Total other operating expenses	276,532	246,091
Earnings from operations	39,025	49,290
Non operating revenues:		
Subsidy from the FSM National Government	6,862	24,286
Net investment earnings	31,623	24,073
Net income	77,510	97,649
Capital contribution from the FSM National Government	1,524	8,272
Change in net position	79,034	105,921
Net position at beginning of year	1,212,755	1,106,834
Net position at end of year	\$ 1,291,789	\$ 1,212,755

See accompanying notes to financial statements.

**CHUUK STATE HEALTH CARE PLAN**  
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Statements of Cash Flows  
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Premiums received	\$ 1,219,735	\$ 1,213,748
Medical claims and benefits paid	(1,031,090)	(876,978)
Cash paid to employees and vendors	(218,593)	(237,762)
Net cash (used in) provided by operating activities	(29,948)	99,008
Cash flows from noncapital financing activities:		
Subsidy from the FSM National Government	6,862	24,286
Cash flows from capital and related financing activities:		
Capital contributions from the FSM National Government	1,524	8,272
Acquisition of property and equipment	(1,524)	(8,272)
Net cash used in capital and related financing activities	-	-
Cash flows from investing activities:		
Additions to investments	-	(200,000)
Liquidation of time certificates of deposit	-	100,000
Interest income received	5,384	2,849
Net cash provided by (used in) investing activities	5,384	(97,151)
Net change in cash and cash equivalents	(17,702)	26,143
Cash and cash equivalents at beginning of year	533,158	507,015
Cash and cash equivalents at end of year	\$ 515,456	\$ 533,158
Reconciliation of earnings from operations to net cash (used in) provided by operating activities:		
Earnings from operations	\$ 39,025	\$ 49,290
Adjustments to reconcile earnings from operations to net cash (used in) provided by operating activities:		
Depreciation	10,860	11,282
Changes in assets and liabilities:		
(Increase) decrease in premiums receivable	(222,383)	111,988
Decrease (increase) in other receivables	14,431	(5,958)
Increase (decrease) in medical claims and benefits payable	95,472	(70,599)
Increase in accounts payable and accrued expenses	32,647	3,005
Net cash (used in) provided by operating activities	\$ (29,948)	\$ 99,008

See accompanying notes to financial statements.

**CHUUK STATE HEALTH CARE PLAN  
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Notes to Financial Statements  
September 30, 2013 and 2012

(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 two medical clinics in Chuuk – Family Clinic and Sefin Health Clinic, and six hospitals in the Philippines – Cardinal Santos Medical Center, Medical City, Capitol Medical Center, Kidney and Transplant Institute, Philippines Heart Center, 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.

- Restricted:

➤ Nonexpendable – Net position subject to externally imposed stipulations that require the Plan to maintain them permanently. For the years ended September 30, 2013 and 2012, the Plan does not have nonexpendable net position.

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

Notes to Financial Statements  
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

- Expendable – Net position whose use by the Plan is subject to externally imposed stipulations that can be fulfilled by actions of the Plan pursuant to those stipulations or that expire by the passage of time.

- Unrestricted:

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

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

Basis of Accounting

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

Estimates

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

Revenue and Expense Recognition

Health care premiums from enrolled members of the Plan are reported as revenue in the period such become due. The Plan considers health care premium revenues and costs that are directly related to the provision 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 of the date acquired. Time certificates of deposits with original maturity terms greater than three months are separately classified.

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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

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, 2013 and 2012, the carrying amount of the Plan's cash and cash equivalents and time certificates of deposit was \$715,456 and \$733,158, respectively, and the corresponding bank balances were \$773,979 and \$725,346, respectively. Of the bank balance amounts, \$772,703 and \$724,173, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$1,276 and \$1,173 as of September 30, 2013 and 2012, respectively, represent deposits maintained in dollar denominated bank accounts maintained offshore. As of September 30, 2013 and 2012, bank deposits in the amount of \$479,068 and \$536,930, 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 recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Premiums Receivable

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

Property and Equipment

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



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

Notes to Financial Statements  
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2013, the Plan implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

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

Notes to Financial Statements  
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Plan.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

Risk Management

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

(3) Investments

Investments recorded at fair value are comprised of the following:

	<u>2013</u>	<u>2012</u>
Common stock	\$ 178,602	\$ 199,441
Fixed income securities	54,565	60,031
Mutual funds	53,177	119
Money market funds	<u>9,129</u>	<u>9,644</u>
	\$ <u>295,473</u>	\$ <u>269,235</u>

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

Notes to Financial Statements  
September 30, 2013 and 2012

(3) Investments, Continued

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, 2013 and 2012.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Plan. As of September 30, 2013 and 2012, there was no concentration of credit risk for the Plan's investments.

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

As of September 30, 2013 and 2012, the Plan's investments in debt securities were as follows:

		<u>Investment Maturities (In Years)</u>					
	Moody's <u>Credit Rating</u>	Less <u>Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	Greater <u>Than 10</u>	<u>Fair Value</u>	
2013							
U.S. Treasury obligations	Aaa	\$ -	\$ 18,040	\$ -	\$ -	\$ 18,040	
U.S. Government Agencies: Federal National Mortgage Association	Aaa	-	36,525	-	-	36,525	
		\$ -	\$ 54,565	\$ -	\$ -	\$ 54,565	
2012							
U.S. Treasury obligations	Aaa	\$ -	\$ 28,070	\$ 14,809	\$ -	\$ 42,879	
U.S. Government Agencies: Federal National Mortgage Association	Aaa	17,152	-	-	-	17,152	
		\$ 17,152	\$ 28,070	\$ 14,809	\$ -	\$ 60,031	

(4) Property and Equipment

A summary of the Plan's property and equipment at September 30, 2013 and 2012, is as follows:

	Estimated Useful Lives	Balance at October 1, 2012	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2013
Office furniture and equipment	5 - 10 years	\$ 49,679	\$ 1,524	\$ -	\$ 51,203
Vehicles	5 years	56,660	-	-	56,660
		106,339	1,524	-	107,863
Less accumulated depreciation		(78,631)	(10,860)	-	(89,491)
Property and equipment, net		\$ 27,708	\$ (9,336)	\$ -	\$ 18,372

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

Notes to Financial Statements  
September 30, 2013 and 2012

(4) Property and Equipment, Continued

	Estimated Useful Lives	Balance at October 1, 2011	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2012
Office furniture and equipment	5 - 10 years	\$ 41,407	\$ 8,272	\$ -	\$ 49,679
Vehicles	5 years	<u>56,660</u>	<u>-</u>	<u>-</u>	<u>56,660</u>
		98,067	8,272	-	106,339
Less accumulated depreciation		<u>(67,349)</u>	<u>(11,282)</u>	<u>-</u>	<u>(78,631)</u>
Property and equipment, net		\$ <u>30,718</u>	\$ <u>(3,010)</u>	\$ <u>-</u>	\$ <u>27,708</u>

(5) Related Parties

As of September 30, 2013 and 2012, premiums receivable from the Chuuk State Government amounted to \$279,264 and \$23,913, respectively, and related premiums revenue earned for the years then ended amounted to \$1,010,109 and \$779,491, respectively. Of the \$279,264 of premiums receivable, \$206,250 relates to court judgments against the Chuuk State Government. The judgments have been received but funding for repayment of the receivables depends on future Chuuk State appropriations. As of September 30, 2013 and 2012, the Plan also has an outstanding receivable of \$50,000 from the Chuuk State Government, representing advances made to a component unit of the State. Management cannot assess when the State will be able to repay the premiums receivable and the advance and, has accordingly, reflected the balances as noncurrent in the accompanying statements of net position. At September 30, 2013 and 2012, the Plan has an outstanding receivable from Chuuk Public Utility Corporation (CPUC) of \$100,283 and \$109,289, respectively. The ultimate collectibility of this matter is dependent on CPUC's ability to generate sufficient funding to repay the balance.

**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 statements of net position as September 30, 2013, 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 June 24, 2014.

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

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

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

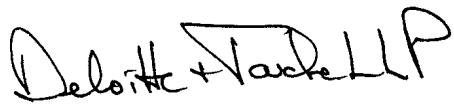
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

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

June 24, 2014

**CHUUK STATE HEALTH CARE PLAN**

Summary Schedule of Prior Year Findings  
Year Ended September 30, 2013

There are no prior year findings unresolved as of September 30, 2013.