

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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

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Years Ended September 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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.

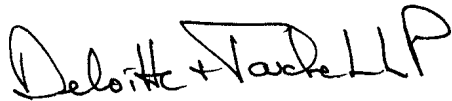
Other Matters

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 28, 2016, 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 28, 2016

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

This analysis, prepared by the management of the Chuuk State Health Care Plan (the "Plan"), offers readers a narrative overview of the activities of the Plan for the fiscal year ended September 30, 2015. We encourage readers to consider this information in conjunction with the Plan's financial statements, which follow. Fiscal year 2015 and 2014 comparative information has been included, where appropriate. This information is required by the Governmental Accounting Standards Board, (GASB), which provides guidelines on what must be included and excluded from the analysis.

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

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2015, the Chuuk State Health Care Plan's net position increased \$0.030 million (up 2.3%) from \$1.323 million in the prior year to \$1.352 million. The increase comes from premium revenues and a reduction in force of the government sector education employees. This is another increase in net position since fiscal 2006.
- During fiscal year 2015, the Plan had premium revenues of \$1.500 million compared to \$1.368 million in fiscal year 2014. The \$0.07 million increase (or 5%) was the result of new private sector enrollees. This FY2015, there were no court judgment revenues. Medical claims expenses of \$1.14 million in fiscal year 2015 increased \$0.016 (or 1.4%) from \$1.124 million in the prior year. This increase in medical claims expenses reflects the results of greater plan utilization by enrollees and patients.
- During fiscal year 2015, the Plan had net income of \$0.03 million compared with net income of \$0.031 million in fiscal year 2014. The Plan's net revenues increased \$0.111 million (up 42%).

THE 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 current and noncurrent 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 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.

Net position are 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 asset category is restricted assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted assets 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.

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Management's Discussion and Analysis
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**SUMMARY STATEMENTS NET POSITION
(In '000's)**

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|------------------------------------|-----------------|-----------------|-----------------|
| Assets: | | | |
| Current and other assets | \$ 1,467 | \$ 1,390 | \$ 1,452 |
| Capital assets, net | <u>12</u> | <u>15</u> | <u>18</u> |
| Total assets | \$ <u>1,479</u> | \$ <u>1,405</u> | \$ <u>1,470</u> |
| Liabilities: | | | |
| Current liabilities | \$ <u>127</u> | \$ <u>82</u> | \$ <u>178</u> |
| Total liabilities | <u>127</u> | <u>82</u> | <u>178</u> |
| Net position: | | | |
| Invested in capital assets | 12 | 15 | 18 |
| Restricted | <u>1,340</u> | <u>1,308</u> | <u>1,274</u> |
| Total net position | <u>1,352</u> | <u>1,323</u> | <u>1,292</u> |
| Total liabilities and net position | \$ <u>1,479</u> | \$ <u>1,405</u> | \$ <u>1,470</u> |

The total assets at the end of fiscal year 2015 of \$1.479 million exceed total liabilities of \$0.127 million, resulting in a net position of \$1.352 million. Of the total assets, \$1.005 million are held in cash, cash equivalents or short-term investments. Another \$0.412 million are in the form of accounts receivable. This contrasts with fiscal year 2014 when \$0.912 million of the total assets were held in cash, cash equivalents or short-term investments and accounts receivables were \$0.429 million. Liabilities of \$0.127 million in fiscal year 2015 compare unfavorably with the \$0.082 million in fiscal year 2014; up \$0.044 million (or 53.8%).

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 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.

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Management's Discussion and Analysis
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SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
In '000's

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|-----------------|-----------------|-----------------|
| Revenues: | | | |
| Premiums | \$ 1,500 | \$ 1,368 | \$ 1,432 |
| Other Revenues | 12 | 19 | 10 |
| Claims expenses | <u>(1,139)</u> | <u>(1,124)</u> | <u>(1,126)</u> |
| Total net revenues | <u>373</u> | <u>263</u> | <u>316</u> |
| Expenses: | | | |
| Other operating expenses | <u>337</u> | <u>268</u> | <u>277</u> |
| Earnings (loss) from operations | 36 | (5) | 39 |
| Non- operating revenues (expenses): | | | |
| Subsidy from the FSM National Government | 2 | 7 | 7 |
| Net investment (loss) income | <u>8-</u> | <u>25</u> | <u>32</u> |
| Earnings before capital contributions | 30 | 27 | 78 |
| Capital contribution from the FSM National Government | <u>-</u> | <u>4</u> | <u>1</u> |
| Change in net position | 30 | 31 | 79 |
| Net position at beginning of year | <u>1,323</u> | <u>1,292</u> | <u>1,213</u> |
| Net position at end of year | \$ <u>1,352</u> | \$ <u>1,323</u> | \$ <u>1,292</u> |

In fiscal year 2015, the Plan showed positive improvements in several aspects of its financial operations. The Statement of Revenues, Expenses, and Changes in Net Position reflects \$1.35 million in net position, with an overall \$0.030 increase (or 3.19%) in net position from the prior year.

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

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Premium revenues represent receipts from Plan enrollees. The following table indicates premium revenue activity for fiscal years 2015, 2014 and 2013 for both public and private sector enrollees:

| MEMBER COMPOSITION | FY 2015 | | FY 2014 | | FY 2013 | |
|-----------------------|-----------------------|-----------------|-----------------------|-----------------|-----------------------|-----------------|
| | # | PREMIUMS | # | PREMIUMS | # | PREMIUMS |
| | ENROLLED @ 9-30-15 | PAID (000's) | ENROLLED @ 9-30-14 | PAID (000's) | ENROLLED @ 9-30-13 | PAID (000's) |
| Public Sector | 7,640 | \$ 1,080 | 8,550 | \$ 998 | 9,075 | \$ 1,009 |
| Private Sector | 5,060 | 420 | 4,650 | 370 | 4,900 | 423 |
| TOTALS | 12,700 | \$ 1,500 | 13,200 | \$ 1,368 | 13,975 | \$ 1,432 |

The chart reflects the decline in public sector enrollees in FY 2015, declining from 8,550 in FY2014 to 7,640 (or 11%) in fiscal year 2015. This is due to the reduction in force program in the government education sector. The private sector enrollees in fiscal year 2015 increased from 4,650 in fiscal year 2014 to 5,060 in fiscal year 2015. The enrollment of GPPC and United Airline created an increase in private sector premium collections.

Management's control of claim expenses continues the positive turnaround that commenced in fiscal year 2014. The recurring problem from prior years of medical claims expenses comprising ever larger a ratio of Plan premiums, leaving little leftover to cover general and administrative expenses, has been altered as shown in the table reflecting years of Plan operations:

| <u>Fiscal Year</u> | <u>Premiums</u> | <u>Claims Expense</u> | <u>Claims as a % of Premiums</u> |
|--------------------|-----------------|---------------------------|--------------------------------------|
| 2015 | \$1,500,627 | \$1,139,526 | 76% |
| 2014 | \$1,367,637 | \$1,123,795 | 82% |
| 2013 | \$1,431,694 | \$1,126,562 | 79% |
| 2012 | \$1,095,027 | \$ 806,379 | 74% |
| 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 fiscal year 2015, operating expenses of \$0.337 million increased from \$0.268 million incurred in the prior year. The Plan spent legal fees during the filing of the case and won against the Government – Special Education and United Airlines case. 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.

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Years Ended September 30, 2015 and 2014

STATEMENT OF CASH FLOWS

The final statement presented by the Chuuk State Health Care Plan is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity during the year. The statement is divided into 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.

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

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|---------------|---------------|---------------|
| Cash provided by (used in): | | | |
| Operating activities | \$ 104 | \$ (131) | \$ (30) |
| Capital and noncapital related financing activities | 2- | 7 | 7 |
| Investing activities | <u>2</u> | <u>1</u> | <u>5</u> |
| Net change in cash and cash equivalents | 104 | (123) | (18) |
| Cash and cash equivalents, beginning of year | <u>392</u> | <u>515</u> | <u>533</u> |
| Cash and cash equivalents, end of year | \$ <u>496</u> | \$ <u>392</u> | \$ <u>515</u> |

The table indicates that cash and cash equivalents increased \$0.104 million in fiscal 2015, from \$0.392 million in fiscal 2014 to \$0.496 million in the current year. Notably, for the third time since fiscal 2006, operating activities provided positive cash flow as the Plan staunchly the cash outflows from operating losses that had eroded the Plan's cash position in prior fiscal years. Supplementing these results in fiscal 2015, were a \$2 thousand subsidy from the FSM National Government.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Plan's net investment in capital assets of \$12 thousand at fiscal 2015 year end decreased from fiscal year 2014 of \$15 thousand.

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

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

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the Plan's report on the audit of financial statements, which is dated June 29, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be obtained via the Office of the Public Auditor's website at www.fsmopa.fm.

**CHUUK STATE HEALTH CARE PLAN
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Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

ECONOMIC OUTLOOK

In fiscal year 2016, 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 of the Chuuk Public Utility Corporation and the past due premium from 1% increase including the missing premium from government sectors, as the entity takes steps to rationalize its operations. Additionally, aggressive targeting of private sector firms for new enrollments will continue in fiscal 2016 as the construction sector fuels a wave of private sector growth in Chuuk State.

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, 2015 and 2014

| <u>ASSETS</u> | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 495,864 | \$ 392,052 |
| Time certificates of deposit | 200,000 | 200,000 |
| Investments | 309,462 | 319,489 |
| Premiums receivable, net of an allowance for doubtful premiums of \$42,872 in 2015 and 2014 | 411,917 | 423,462 |
| Other receivables | - | 5,464 |
| | 1,417,243 | 1,340,467 |
| Due from Chuuk State Government | - | 50,000 |
| Property and equipment, net | 12,098 | 14,671 |
| Intangible asset, net | 50,000 | - |
| | <u>\$ 1,479,341</u> | <u>\$ 1,405,138</u> |
| <u>LIABILITIES AND NET POSITION</u> | | |
| Current liabilities: | | |
| Medical claims and benefits payable | \$ 111,780 | \$ 69,006 |
| Accounts payable and accrued expenses | 15,182 | 13,557 |
| | 126,962 | 82,563 |
| Contingency | | |
| Net position: | | |
| Net investment in capital assets | 12,098 | 14,671 |
| Restricted | 1,340,281 | 1,307,904 |
| | 1,352,379 | 1,322,575 |
| | <u>\$ 1,479,341</u> | <u>\$ 1,405,138</u> |

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2015 and 2014

| | 2015 | 2014 |
|---|--------------|--------------|
| Revenues: | | |
| Premiums | \$ 1,500,627 | \$ 1,367,637 |
| Others | 12,333 | 19,087 |
| | 1,512,960 | 1,386,724 |
| Benefits paid: | | |
| Claims expenses | 1,139,526 | 1,123,795 |
| | 373,434 | 262,929 |
| Other operating expenses: | | |
| Salaries, wages and other benefits | 92,201 | 94,578 |
| Coordinator's fee | 88,800 | 71,600 |
| Travel | 40,130 | 37,340 |
| Legal fees | 30,368 | 12,939 |
| Consultant fee | 20,000 | - |
| Board allowance | 12,517 | 12,568 |
| Social security expense | 8,966 | 9,492 |
| Depreciation | 6,169 | 7,958 |
| Repair and maintenance | 5,839 | 2,131 |
| Office and computer supplies | 4,285 | 6,876 |
| Promotional | 4,013 | 708 |
| Gasoline and fuel | 3,100 | 3,350 |
| Utilities | 2,982 | - |
| Telephone and telegraph | 2,658 | 3,228 |
| Staff housing | 788 | 30 |
| Representation | 175 | 848 |
| Miscellaneous | 13,856 | 4,442 |
| | 336,847 | 268,088 |
| Total other operating expenses | | |
| Earnings (loss) from operations | 36,587 | (5,159) |
| Nonoperating revenues: | | |
| Subsidy from the FSM National Government | 1,640 | 6,707 |
| Net investment (loss) earnings | (8,423) | 24,981 |
| | 29,804 | 26,529 |
| Earnings before capital contributions | | |
| Capital contribution from the FSM National Government | - | 4,257 |
| Change in net position | 29,804 | 30,786 |
| Net position at beginning of year | 1,322,575 | 1,291,789 |
| Net position at end of year | \$ 1,352,379 | \$ 1,322,575 |

See accompanying notes to financial statements.

CHUUK STATE HEALTH CARE PLAN
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Statements of Cash Flows
Years Ended September 30, 2015 and 2014

| | 2015 | 2014 |
|---|--------------|--------------|
| Cash flows from operating activities: | | |
| Premiums received | \$ 1,524,505 | \$ 1,353,911 |
| Medical claims and benefits paid | (1,096,750) | (1,188,526) |
| Cash paid to employees and vendors | (323,591) | (296,461) |
| Net cash provided by (used in) operating activities | 104,164 | (131,076) |
| Cash flows from noncapital financing activities: | | |
| Subsidy from the FSM National Government | 1,640 | 6,707 |
| Cash flows from capital and related financing activities: | | |
| Capital contributions from the FSM National Government | - | 4,257 |
| Acquisition of property and equipment | (3,596) | (4,257) |
| Net cash used in capital and related financing activities | (3,596) | - |
| Cash flows from investing activities: | | |
| Interest income received | 1,604 | 965 |
| Net cash provided by investing activities | 1,604 | 965 |
| Net change in cash and cash equivalents | 103,812 | (123,404) |
| Cash and cash equivalents at beginning of year | 392,052 | 515,456 |
| Cash and cash equivalents at end of year | \$ 495,864 | \$ 392,052 |
| Reconciliation of earnings (loss) from operations to net cash provided by (used in) operating activities: | | |
| Earnings (loss) from operations | \$ 36,587 | \$ (5,159) |
| Adjustments to reconcile earnings (loss) from operations to net cash provided by (used in) by operating activities: | | |
| Depreciation | 6,169 | 7,958 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in premiums receivable | 11,545 | (32,814) |
| (Increase) decrease in other receivables | 5,464 | (5,464) |
| (Decrease) increase in medical claims and benefits payable | 42,776 | (64,731) |
| (Decrease) increase in accounts payable and accrued expenses | 1,623 | (30,866) |
| Decrease in CSG receivable | 50,000 | - |
| (Increase) in intangible asset | (50,000) | - |
| Net cash provided by (used in) operating activities | \$ 104,164 | \$ (131,076) |

See accompanying notes to financial statements.

**CHUUK STATE HEALTH CARE PLAN
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Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014, the Plan does not have nonexpendable net position.

**CHUUK STATE HEALTH CARE PLAN
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Notes to Financial Statements
September 30, 2015 and 2014

(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.

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

Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014, the carrying amount of the Plan's cash and cash equivalents and time certificates of deposit was \$695,864 and \$592,052, respectively, and the corresponding bank balances were \$811,541 and \$681,260, respectively. Of the bank balance amounts, \$810,161 and \$679,885, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$1,381 and \$1,375 as of September 30, 2015 and 2014, respectively, represent deposits maintained in dollar denominated bank accounts maintained offshore. As of September 30, 2015 and 2014, bank deposits in the amount of \$500,000 and \$481,333, 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, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Intangible Asset

Intangible asset represent right to use office space in the Chuuk State General Hospital approved by the Governor of Chuuk, in exchange of the \$50,000 receivable from the Chuuk State Government. The exchange transaction was recorded as of September 30, 2015 (see note 5). 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 25 years.

New Accounting Standards

During the year ended September 30, 2015, the Plan implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement No. 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the Plan's financial statements.

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

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Plan's financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Plan's financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the Plan's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the Plan's financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the Plan's financial statements.

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

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

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>2015</u> | <u>2014</u> |
|-------------------------|-------------------|-------------------|
| Common stock | \$ 169,586 | \$ 185,065 |
| Fixed income securities | 75,604 | 74,164 |
| Mutual funds | 51,082 | 46,566 |
| Money market funds | <u>13,190</u> | <u>13,694</u> |
| | \$ <u>309,462</u> | \$ <u>319,489</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, 2015 and 2014.

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, 2015 and 2014, the U.S. Treasury note of \$36,495 and \$35,737, respectively, and Federal National Mortgage Association of \$39,109 and \$38,427 respectively, represent a concentration of credit risk for the Plan's investments.

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

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

Notes to Financial Statements
September 30, 2015 and 2014

(3) Investments, Continued

As of September 30, 2015 and 2014, the Plan's investments in fixed income securities were as follows:

| 2015 | <u>Investment Maturities (In Years)</u> | | |
|--|---|------------------|-----------------------|
| | <u>Moody's Credit Rating</u> | <u>1 to 5</u> | <u>Fair Value</u> |
| U.S. Treasury obligations | Aaa | \$ 36,495 | \$ 36,495 |
| U.S. Government Agencies: Federal National Mortgage Association | Aaa | <u>39,109</u> | <u>39,109</u> |
| | | <u>\$ 75,604</u> | <u>\$ 75,604</u> |
| | | | |
| 2014 | <u>Investment Maturities (In Years)</u> | | |
| | <u>Moody's Credit Rating</u> | <u>1 to 5</u> | <u>Fair Value</u> |
| U.S. Treasury obligations | Aaa | \$ 35,737 | \$ 35,737 |
| U.S. Government Agencies: Federal National Mortgage Association | Aaa | <u>38,427</u> | <u>38,427</u> |
| | | <u>\$ 74,164</u> | <u>\$ 74,164</u> |

(4) Property and Equipment

A summary of the Plan's property and equipment at September 30, 2015 and 2014, is as follows:

| | <u>Estimated Useful Lives</u> | <u>Balance at October 1, 2014</u> | <u>Transfers and Additions</u> | <u>Transfers and Deletions</u> | <u>Balance at September 30, 2015</u> |
|--------------------------------|---------------------------------------|---|--|--|--|
| Office furniture and equipment | 5 - 10 years | \$ 55,460 | \$ 3,596 | \$ - | \$ 59,056 |
| Vehicles | 5 years | <u>56,660</u> | <u>-</u> | <u>-</u> | <u>56,660</u> |
| | | 112,120 | 3,596 | - | 115,716 |
| Less accumulated depreciation | | <u>(97,449)</u> | <u>(6,169)</u> | <u>-</u> | <u>(103,618)</u> |
| Property and equipment, net | | <u>\$ 14,671</u> | <u>\$ (2,573)</u> | <u>\$ -</u> | <u>\$ 12,098</u> |
| | | | | | |
| | <u>Estimated Useful Lives</u> | <u>Balance at October 1, 2013</u> | <u>Transfers and Additions</u> | <u>Transfers and Deletions</u> | <u>Balance at September 30, 2014</u> |
| Office furniture and equipment | 5 - 10 years | \$ 51,203 | \$ 4,257 | \$ - | \$ 55,460 |
| Vehicles | 5 years | <u>56,660</u> | <u>-</u> | <u>-</u> | <u>56,660</u> |
| | | 107,863 | 4,257 | - | 112,120 |
| Less accumulated depreciation | | <u>(89,491)</u> | <u>(7,958)</u> | <u>-</u> | <u>(97,449)</u> |
| Property and equipment, net | | <u>\$ 18,372</u> | <u>\$ (3,701)</u> | <u>\$ -</u> | <u>\$ 14,671</u> |

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

Notes to Financial Statements
September 30, 2015 and 2014

(5) Related Parties

As of September 30, 2015 and 2014, premiums receivable from the Chuuk State Government (CSG) amounted to \$282,483 and \$302,450, respectively, and related premiums revenue earned for the years then ended amounted to \$1,099,035 and \$1,051,056, respectively. Of the \$282,483 of premiums receivable, \$233,556 relates to court judgments against CSG. The judgments have been received but funding for repayment of the receivables depends on future Chuuk State appropriations. As of September 30, 2014, the Plan also has an outstanding receivable of \$50,000 from CSG, representing advances made to a CSG component unit. As of September 30, 2015, the Plan recorded an intangible asset of \$50,000 representing the use of office space. The designation of the office space was authorized by the Governor of Chuuk in September 30, 2012 and represent payment of the receivables of \$50,000 from CSG.

At September 30, 2015 and 2014, the Plan has an outstanding receivable from Chuuk Public Utility Corporation (CPUC) of \$99,389 and \$98,114, 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, 2015, 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 28, 2016.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2015-01 to be a material weakness. 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.

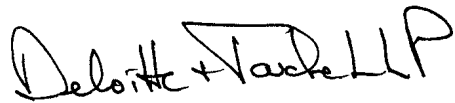
The Plan responses to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings. The Plan's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 28, 2016

CHUUK STATE HEALTH CARE PLAN

Schedule of Findings
Year Ended September 30, 2015

Finding No. 2015-01 – Claim Expenses

Criteria: The Plan should record all related expenses in the appropriate fiscal year in which applicable services were rendered.

Condition: Claim expenses are not timely recorded. Four of forty-two claims paid and recorded in the year ended September 30, 2015 tested totaling \$84,158 related to the fiscal year ended September 30, 2014. Additionally, approximately \$72,000 of fiscal year 2015 claims were not appropriately recorded as of September 30, 2015.

Cause: There appears to be a lack of control over compliance with the criteria. It appears additional effort is necessary to monitor the timely recording of expenses.

Effect: Errors in the internal financial statements resulted from this matter.

Recommendation: Management should regularly monitor claims for appropriate recognition of related expenses. For this reason, management should ensure that adequate accounting assistance is obtained throughout the fiscal year.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. We will do some corrective measures, to constrain our TPA's (Third Party Agent) to submit their billings before the end of October each year in order for us to recognize the appropriate related expenses for each fiscal year.

CHUUK STATE HEALTH CARE PLAN

Summary Schedule of Prior Year Findings
Year Ended September 30, 2015

There are no prior year findings unresolved as of September 30, 2015.