

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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

Table of Contents
Years Ended September 30, 2017 and 2016

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	3
III. Basic Financial Statements:	
Statements of Net Position	9
Statements of Revenue, Expenses, and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12
IV. 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 <i>Government Auditing Standards</i>	20

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, 2017 and 2016, 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, 2017 and 2016, and the changes in its net position and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 5 to the financial statements, the Plan has recorded \$193,315 of premiums receivable related to court judgments against the State of Chuuk (CSG). Collection of this amount is dependent on the receipt of future Chuuk State appropriations. Additionally, the Plan has recorded premiums receivable that are involved in a lawsuit. The Plan has not provided an allowance related to the receivable and collection is dependent on the ultimate resolution of the lawsuit. Our opinion is not modified with respect to these matters.

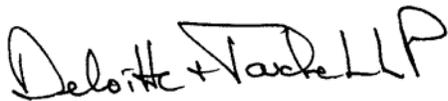
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 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 26, 2018, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.



June 26, 2018

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

Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

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, 2017. We encourage readers to consider this information in conjunction with the Plan's financial statements, which follow. Fiscal years 2017 and 2016 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 Position; and the Statement of Cash Flows.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2017, the Chuuk State Health Care Plan's net position increased \$0.14 million (9%) from \$1.499 million in the prior year to \$1.634 million. The increase comes from premium revenues. This is another increase in net position since fiscal 2006.
- During fiscal year 2017, the Plan had premium revenues of \$1.644 million compared to \$1.505 million in fiscal year 2016. The \$0.139 million increase (or .09%) was the result of new private sector enrollees and premium past dues resulting from payroll inspections in the private sector. Medical claim expenses of \$1.273 million in fiscal year 2017 increased \$0.149 (or 13.3%) from \$1.124 million in the prior year. This increase in medical claims expenses reflects the result of the off-island medical cost increase of the medical treatment in Manila, referred more patients and a few critical patients compared to prior year FY16.
- During fiscal year 2017, the Plan had net income of \$0.135 million compared with net income of \$0.146 million in fiscal year 2016. The Plan's net revenues decreased \$0.011 million (7.5%).

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), liabilities (current and noncurrent), and net position (assets minus liabilities). The difference between assets and liabilities will be discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Position are able to determine the available assets to continue the operations of the Plan. They are also able to determine how much the Plan owes vendors and others. Finally, the Statement of Net Position provides a picture of the net position (assets minus liabilities) available for future expenses by the Plan.

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

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

Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current and other assets	\$ 1,720	\$ 1,545	\$ 1,467
Capital assets, net	<u>17</u>	<u>7</u>	<u>12</u>
Total assets	\$ <u>1,737</u>	\$ <u>1,552</u>	\$ <u>1,479</u>
Liabilities:			
Current liabilities	\$ <u>103</u>	\$ <u>53</u>	\$ <u>127</u>
Total liabilities	<u>103</u>	<u>53</u>	<u>127</u>
Net Position:			
Net investment in capital assets	17	7	12
Restricted	<u>1,617</u>	<u>1,492</u>	<u>1,340</u>
Total net position	<u>1,634</u>	<u>1,499</u>	<u>1,352</u>
Total liabilities and net position	\$ <u>1,737</u>	\$ <u>1,552</u>	\$ <u>1,479</u>

The total assets at the end of fiscal year 2017 of \$1.737 million exceeds the total liabilities of \$0.103 million, resulting in net position of \$1.634 million. Of the total assets, \$1.204 million are held in cash, cash equivalents or short-term investments. Another \$0.475 million are in the form of accounts receivable. This contrasts to fiscal year 2016 when \$1.107 million of the total assets were held in cash, cash equivalents or short-term investments and accounts receivables were \$0.394 million. Liabilities of \$0.103 million in fiscal year 2017 compare with the \$0.053 million in fiscal year 2016; up \$0.50 million (or 95%).

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 the Plan assets. Operating expenses can be classified into two types: (i) medical service expenditures provided to eligible enrollees by accredited health care providers, and (ii) other operating expenses necessary to administer the Plan.

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

Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:			
Premiums	\$ 1,645	\$ 1,505	\$ 1,500
Other revenues	13	14	12
Claims expenses	<u>(1,273)</u>	<u>(1,124)</u>	<u>(1,140)</u>
Net revenues	<u>385</u>	<u>395</u>	<u>372</u>
Expenses:			
Other operating expenses	<u>307</u>	<u>287</u>	<u>337</u>
Earnings from operations	78	108	35
Non- operating revenues (expenses), net:			
Subsidy from FSM National Government	-	-	2
Net investment income (loss)		28	(8)
Other income	<u>57</u>	<u>11</u>	<u>-</u>
Earnings before capital contributions	<u>135</u>	<u>147</u>	<u>29</u>
Change in net position	135	147	29
Net position at beginning of year	<u>1,499</u>	<u>1,352</u>	<u>1,323</u>
Net position at end of year	\$ <u>1,634</u>	\$ <u>1,499</u>	\$ <u>1,352</u>

In fiscal year 2017, the Plan showed positive improvements in virtually every aspect of its financial operations. The Statement of Revenues, Expenses, and Changes in Net Position reflects \$1.63 million in net position, with an overall \$0.135 increase (or 9%) in net position from the prior year.

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

Premium revenues represent receipts from Plan enrollees. The following table indicates premium revenue activity for fiscal years 2017, 2016 and 2015 for both public and private sector enrollees:

	<u>FY2017</u>		<u>FY2016</u>		<u>FY2015</u>	
	# ENROLLED @ 9-30-17	PREMIUMS PAID (000's)	# ENROLLED @ 9-30-16	PREMIUMS PAID (000's)	# ENROLLED @ 9-30-15	PREMIUMS PAID (000's)
Public Sector	7,614	\$ 1,044	7,568	\$ 983	7,640	\$ 1,080
Private Sector	5,332	600	5,179	522	5,060	420
TOTALS	12,946	\$ 1,644	12,747	\$ 1,505	12,700	\$ 1,500

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

Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

The chart reflects a few numbers of increase in public sector enrollees in FY 2017, the increase from 7,568 in FY2016 to 7,614 (or .6%) in fiscal year 2017. The private sectors enrollees in fiscal year 2017 increased from 5,179 in fiscal year 2016 to 5,332 in fiscal year 2017. The enrollment of a new contractor Black Micro Construction and other companies increased the private sectors premium collection.

Management's control of claim expenses continues the positive turnaround that commenced in fiscal year 2017. 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 ten years of Plan operations:

<u>Fiscal Year</u>	<u>Premiums</u>	<u>Claims Expense</u>	<u>Claims as a % of Premiums</u>
2017	\$ 1,644,444	\$1,273,393	77%
2016	\$ 1,505,119	\$1,124,401	75%
2015	\$ 1,500,627	\$1,139,526	76%
2014	\$ 1,367,637	\$1,123,795	82%
2013	\$ 1,431,694	\$1,126,562	79%
2012	\$ 1,095,027	\$ 806,379	74%
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%

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

In fiscal year 2017, operating expenses of \$0.307 million increased from \$0.287 million incurred in the prior year. Even with rising Plan enrollments, operating expenses increased because of the studies on adding a plan for non-insured patients. Still on tough control of Plan operating expenses by management oversight and Board policies.

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

Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

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 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 is the operating cash flows including a reconciliation of the net cash used in operating activities to earnings from operations reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash provided by (used in):			
Operating activities	\$ 54	\$ 64	\$ 104
Capital and noncapital related financing activities	(14)	10	(2)
Investing activities	<u>1</u>	<u>(99)</u>	<u>2</u>
Net change in cash and cash equivalents	41	(25)	104
Cash and cash equivalents at beginning of year	<u>471</u>	<u>496</u>	<u>392</u>
Cash and cash equivalents at end of year	\$ <u>512</u>	\$ <u>471</u>	\$ <u>496</u>

The table indicates that cash and cash equivalents increased \$0.041 million in fiscal 2017, from \$0.471 million in fiscal 2016 to \$0.512 million in the current year. Notably, for the fifth time since fiscal 2006, operating activities provided positive cash flow 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 fiscal 2017, there is no subsidy from the FSM National Government.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Plan's net investment in capital assets of \$17 thousand at fiscal 2017 year end increased from fiscal year 2016 of \$7 thousand. Further information on the Plan's capital assets can be found in note 4 to the financial statements.

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

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in the Plan's report on the audit of financial statements, which is dated June 29, 2017. That Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be obtained via the Office of the FSM National Public Auditor's website at www.fsmopa.fm.

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

Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

ECONOMIC OUTLOOK

In fiscal year 2018, the Plan's management will continue its focus on collecting accounts receivables, increasing Plan enrollments, and controlling medical claim and other operating expenses. Management will specifically focus on collecting multi-year delinquent premiums of the CPUC and the past due premium from 1% increase including the missing premium from government sectors, as the Plan takes steps to rationalize its operations. Additionally, the Plan will continue to do payroll inspection on private sector firms to make sure they are reporting all their employees to the plan accordingly in fiscal 2018.

CONTACTING THE CHUUK STATE HEALTH CARE PLAN'S MANAGEMENT

This financial report is designed to provide our citizens, Plan enrollees, accredited health care providers, and other users of our financial information, a general overview of the Plan's finances to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director, Chuuk State Health Care Plan; P.O Box 1679; Weno, Chuuk; FM 96942.

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

Statements of Net Position
September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 512,210	\$ 471,432
Time certificates of deposit	200,000	200,000
Investments	491,647	435,453
Premiums receivable, net of an allowance for doubtful premiums of \$42,872 in 2017 and 2016	<u>474,803</u>	<u>394,227</u>
Total current assets	1,678,660	1,501,112
Property and equipment, net	16,498	6,640
Intangible asset, net	<u>41,750</u>	<u>43,750</u>
Total assets	<u><u>\$ 1,736,908</u></u>	<u><u>\$ 1,551,502</u></u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Medical claims and benefits payable	\$ 83,019	\$ 40,009
Accounts payable and accrued expenses	<u>20,134</u>	<u>12,823</u>
Total liabilities	<u>103,153</u>	<u>52,832</u>
Contingency		
Net position:		
Net investment in capital assets	16,498	6,640
Restricted	<u>1,617,257</u>	<u>1,492,030</u>
Total net position	<u>1,633,755</u>	<u>1,498,670</u>
Total liabilities and net position	<u><u>\$ 1,736,908</u></u>	<u><u>\$ 1,551,502</u></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, 2017 and 2016

	2017	2016
Revenues:		
Premiums	\$ 1,644,444	\$ 1,505,119
Others	13,344	13,807
	1,657,788	1,518,926
Benefits paid:		
Claims expenses	1,273,393	1,124,400
Net revenues	384,395	394,526
Other operating expenses:		
Coordinator's fee	81,900	73,450
Salaries, wages and other benefits	76,014	77,721
Travel	48,861	45,957
Legal fees	18,169	24,323
Consultant fee	10,000	-
Social security expense	7,592	7,729
Board allowance	7,395	9,781
Depreciation and amortization	6,407	12,731
Office and computer supplies	3,950	3,278
Repair and maintenance	3,873	3,610
Representation	3,604	1,529
Telephone and telegraph	2,685	2,526
Gasoline and fuel	2,279	2,272
Promotional	600	178
Contractual services	240	-
Miscellaneous	33,163	21,636
Total other operating expenses	306,732	286,721
Earnings from operations	77,663	107,805
Nonoperating revenues, net:		
Net investment earnings	57,422	27,380
Other income	-	11,106
Nonoperating revenues, net	57,422	38,486
Change in net position	135,085	146,291
Net position at beginning of year	1,498,670	1,352,379
Net position at end of year	\$ 1,633,755	\$ 1,498,670

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Premiums received	\$ 1,577,212	\$ 1,536,617
Medical claims and benefits paid	(1,230,383)	(1,196,170)
Cash paid to employees and vendors	(293,014)	(276,351)
Net cash provided by operating activities	53,815	64,096
Cash flows from noncapital financing activities:		
Other income	-	11,106
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(14,265)	(1,023)
Cash flows from investing activities:		
Interest income received	1,228	27,380
Purchase of investments	-	(125,991)
Net cash provided by (used in) investing activities	1,228	(98,611)
Net change in cash and cash equivalents	40,778	(24,432)
Cash and cash equivalents at beginning of year	471,432	495,864
Cash and cash equivalents at end of year	\$ 512,210	\$ 471,432
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$ 77,663	\$ 107,805
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation and amortization	6,407	12,731
Changes in assets and liabilities:		
Decrease in premiums receivable	(80,575)	17,691
(Decrease) increase in medical claims and benefits payable	43,009	(71,770)
(Decrease) increase in accounts payable and accrued expenses	7,311	(2,361)
Net cash provided by operating activities	\$ 53,815	\$ 64,096

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2017 and 2016

(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, the 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, 2017 and 2016, 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, 2017 and 2016

(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 of cash flows, cash and cash equivalents is defined as amounts in bank deposit accounts as well as short-term investments maturing within three months or less of the date acquired. Time certificates of deposits with original maturity terms greater than three months are separately classified.

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

Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017 and 2016, the carrying amount of the Plan's cash and cash equivalents and time certificates of deposit was \$712,210 and \$671,432, respectively, and the corresponding bank balances were \$847,982 and \$710,846, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits in the amount of \$500,000 were FDIC insured. The Plan does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

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, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Intangible Asset

Intangible asset represents 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. 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, 2017, the Plan implemented the following pronouncements:

- GASB 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.
- GASB 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).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

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

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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 financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

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

Notes to Financial Statements
September 30, 2017 and 2016

(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>2017</u>	<u>2016</u>
Common stock	\$ 331,309	\$ 296,879
Mutual funds	19,815	11,518
Fixed income securities	30,622	70,785
Money market funds	<u>109,901</u>	<u>56,271</u>
	\$ <u>491,647</u>	\$ <u>435,453</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, 2017 and 2016.

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, 2017 and 2016, the U.S. Treasury note of \$30,622 and \$31,733, respectively, and Federal National Mortgage Association of \$39,052 as of September 30, 2016, represent a concentration of credit risk for the Plan's investments.

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

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

Notes to Financial Statements
September 30, 2017 and 2016

(3) Investments, Continued

As of September 30, 2017 and 2016, the Plan's investments recorded at fair value were as follows:

	Hierarchy As of September 30, 2017			Moody's Credit Rating	No Maturity	Maturity At September 30, 2017			
	Level 1	Level 2	Level 3			Less than 1 year	1 - 5 years	6 -10 years	More than 10 years
Investments by fair value level:									
Fixed income securities	\$ -	\$ 30,622	\$ -	Aaa	\$ -	\$ -	\$ -	\$ 30,622	\$ -
Mutual funds	19,815	-	-	Aaa	19,815	-	-	-	-
Common stock	<u>331,309</u>	-	-	Aaa	<u>331,309</u>	-	-	-	-
	351,124	30,622	-		351,124	-	-	30,622	-
Investments measured at amortized cost:									
Money market funds	<u>109,901</u>	-	-		-	<u>109,901</u>	-	-	-
Total investments	<u>\$ 461,025</u>	<u>\$ 30,622</u>	<u>\$ -</u>		<u>\$ 351,124</u>	<u>\$ 109,901</u>	<u>\$ -</u>	<u>\$ 30,622</u>	<u>\$ -</u>

	Hierarchy As of September 30, 2016			Moody's Credit Rating	No Maturity	Maturity At September 30, 2016			
	Level 1	Level 2	Level 3			Less than 1 year	1 - 5 years	6 -10 years	More than 10 years
Investments by fair value level:									
Fixed income securities	\$ -	\$ 70,785	\$ -	Aaa	\$ -	\$ -	\$ 39,052	\$ 31,733	\$ -
Mutual funds	11,518	-	-	Aaa	11,518	-	-	-	-
Common stock	<u>296,879</u>	-	-	Aaa	<u>296,879</u>	-	-	-	-
	308,397	70,785	-		308,397	-	-	31,733	-
Investments measured at amortized cost:									
Money market funds	<u>56,271</u>	-	-		-	<u>56,271</u>	-	-	-
Total investments	<u>\$ 364,668</u>	<u>\$ 70,785</u>	<u>\$ -</u>		<u>\$ 308,397</u>	<u>\$ 56,271</u>	<u>\$ 39,052</u>	<u>\$ 31,733</u>	<u>\$ -</u>

(4) Property and Equipment

A summary of the Plan's property and equipment at September 30, 2017 and 2016, is as follows:

	Estimated Useful Lives	Balance at October 1, 2016	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2017
Office furniture and equipment	5 - 10 years	\$ 60,079	\$ 3,042	\$ -	\$ 63,121
Vehicles	5 years	<u>56,660</u>	<u>11,223</u>	-	<u>67,883</u>
		116,739	14,255	-	\$ 131,004
Less accumulated depreciation		<u>(110,099)</u>	<u>(4,407)</u>	-	<u>(114,506)</u>
Property and equipment, net		<u>\$ 6,640</u>	<u>\$ 9,858</u>	<u>\$ -</u>	<u>\$ 16,498</u>

	Estimated Useful Lives	Balance at October 1, 2015	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2016
Office furniture and equipment	5 - 10 years	\$ 59,056	\$ 1,023	\$ -	\$ 60,079
Vehicles	5 years	<u>56,660</u>	-	-	<u>56,660</u>
		115,716	1,023	-	\$ 116,739
Less accumulated depreciation		<u>(103,618)</u>	<u>(6,481)</u>	-	<u>(110,099)</u>
Property and equipment, net		<u>\$ 12,098</u>	<u>\$ (5,458)</u>	<u>\$ -</u>	<u>\$ 6,640</u>

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

Notes to Financial Statements
September 30, 2017 and 2016

(5) Related Parties

As of September 30, 2017 and 2016, premiums receivable from the Chuuk State Government (CSG) amounted to \$245,459 and \$238,054, respectively, and related premium revenue earned for the years then ended amounted to \$1,043,891 and \$957,968, respectively. Of the \$245,459 of premiums receivable, \$193,315 relates to court judgments against CSG. The judgments have been received but funding for repayment of the receivables depends on future Chuuk State appropriations.

At September 30, 2017 and 2016, the Plan has outstanding premiums receivable from Chuuk Public Utility Corporation (CPUC). The ultimate collectibility of this matter is dependent on the outcome of a related lawsuit to collect these amounts.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Chuuk State Health Care Plan:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Chuuk State Health Care Plan (the "Plan"), which comprise the statement of net position as September 30, 2017, 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 26, 2018.

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.

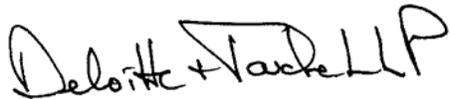
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

June 26, 2018