MICARE PLAN, INC.

(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

MICARE PLAN, INC.

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Year Ended September 30, 2008

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INDEPENDENT AUDITORS' REPORT

Chairman
Board of Directors
MiCare Plan, Inc.:

We have audited the accompanying statements of net deficiency of the MiCare Plan, Inc. (the "Plan"), a component unit of the Federated States of Micronesia National Government, as of September 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net deficiency and of cash flows for the years then ended. These financial statements are the responsibility of the Plan's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the MiCare Plan, Inc. as of September 30, 2008 and 2007, and the changes in its net deficiency and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the MiCare Plan, Inc.'s management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

May 12, 2009

MICARE PLAN, INC.

Management's Discussion and Analysis
Year Ending September 30, 2008

The following discussion and analysis of the financial performance and activity of MiCare Plan is to provide an introduction and understanding of the basic financial statements of the Plan for the year ended September 30, 2008. This discussion has been prepared by the management and should be read in conjunction with the financial statements and notes thereto, which follow this section.

MiCare Plan (the Plan) was established by the Federated States of Micronesia Public Law 3-82 enacted December 26, 1984 for the purpose of establishing a fund to pay for eligible members' certain medical expenses both on-island and off-island.

Participation in the Plan is optional for employees and employers both public and private entities in the Federated States of Micronesia. Premiums are paid on a fixed bi-weekly rate for the three plan options.

The Plan is under the governance of the Board of Directors consisting of four (4) member representatives from each state government, one (1) from the FSM National Government and one (1) member representing private health sector, all of which are appointed by the President and confirmed by the FSM Congress. The seventh member of the Board is the Administrator who is appointed by the Board of Directors and serves as an ex-officio member.

Fiscal year 2008 was another good year for the Plan in terms of profitability. The year closed with a $468,779 net income, another positive and remarkable result happened over the past two years. Although there was a decrease in operating revenues, the decrease in operating expenses including medical costs and other administrative expenses and the write-off of a liability due to FSM National Government that was carried from previous years contributed to the positive result in the financial operation of the Plan.

Achieving a surplus in operations remains the main objective of the Plan to reduce accumulated deficits and to make the program financially stable and sustainable. The Plan was successful in achieving this objective and this resulted in decreasing the accumulated deficits by almost 60% from $782,511 in 2007 to $313,732 in 2008.

The following table summarizes the financial condition and operations of the Plan as of and for the years ended September 30, 2008, 2007 and 2006.

	2008	2007	2006
Assets:			
Current assets	$ 1,170,803	$ 1,520,678	$ 1,563,028
Noncurrent assets	33,571	34,353	10,004
	$ 1,204,374	$ 1,555,031	$ 1,573,032
Liabilities and Net Assets:			
Current liabilities	$ 1,518,106	$ 2,337,542	$ 3,127,336
Net assets	(313,732)	(782,511)	(1,554,304)
	$ 1,204,374	$ 1,555,031	$ 1,573,032
Revenues, Expenses and Changes in Net Assets:			
Operating revenues	$ 5,489,620	$ 5,687,809	$ 5,538,932
Operating expenses	5,163,378	5,259,806	5,708,232
Operating income (loss)	326,242	428,003	(169,300)
Non-operating revenues	142,537	343,790	55,536
Change in net assets	$ 468,779	$ 771,793	$ (113,764)

Financial Highlights

- For fiscal year 2008, the Plan recorded an increase of total net assets of $468,779, compared to a $771,793 increase in fiscal year 2007.
- Operating revenues in fiscal year 2008 declined by $198,189 or 3% from the previous fiscal year.
- During fiscal year 2008, the Plan's total operating expenses were $5,163,378, which decreased by 1.8% compared with the prior year of $5,259,806.
- In fiscal year 2008, medical claims decreased by 1.6% to $4,757,448 as compared to $4,833,920 in fiscal year 2007.

Operating Revenues

Premium collections are the major source of revenue for the Plan's operation. In fiscal year 2008, premium collections resulted in a decrease of $195,081 to $5,481,462 compared to the previous fiscal year of $5,676,543. The decrease of 3% in collections was due to decrease in enrollees from Kosrae and Chuuk State Governments which implemented the Reduction in Force program, a comprehensive financial recovery program.

Total premium contributions from the public sector were $4,397,038 in fiscal year 2008, which represents 80% of the total operating revenues from premium collections while total contributions from the private sector was $1,084,424 or 20%.

Of total premiums collected of $4,397,038 from five participating government accounts, FSM National Government and agencies lead in terms of premium contributions, from which the Plan collected $1,862,648 (42.3%) followed by Pohnpei $1,640,318 (37.3%) Kosrae $455,371 (10.4%) Chuuk $219,839 (5%) and Yap $218,862 (5%).

For private sector contributions, participating private businesses in Pohnpei contributed $947,885 (87%) in fiscal year 2008 followed by Yap $83,160 (8%), Chuuk $29,431 (3%) and Kosrae $23,948 (2%).

The Plan has also collected miscellaneous income of $8,158 in fiscal year 2008, a decrease of 28% from previous year of $11,266.

Operating Expense

Total operating expenses for fiscal year 2008 decreased by 1.8% to $5,163,378 compared to $5,259,806 last year. Medical claims and administrative expenses are the two types of operating expenses of the Plan. As compared to fiscal year 2007, total medical expenses decreased by $76,472 or 1.6% while general and administrative expenses decreased by $19,956 or 4.7% with an overall net decrease of expenditures for the year of $96,428. The modest decrease of 1.8% was due to decrease of on-island medical expenses and patients' airfare cost. The following table below indicates the medical expenses by type of claims for fiscal year 2008.

Type of Claims	2008	2007	2006
Local State Hospitals	$ 452,086	$ 483,582	$ 487,316
Local Private Providers	1,518,232	1,571,598	1,915,921
Off-island Hospitals	2,478,429	2,464,380	2,509,568
Patients Airfare	306,001	309,820	395,284
Patients Stipend	2,700	4,540	7,220
Total Medical Claims	$ 4,757,448	$ 4,833,920	$ 5,315,309

In fiscal year 2008, medical spending for off-island hospitals has the highest utilization rate of 52%, followed by local private providers 32%, local state hospitals 9.5%, patient airfare ticket and stipends 6.5%.

Medical claims from local state hospitals decreased by $31,496 or 6.5% compared to FY 2007. The major contributory factor was due to decline of outpatient claims received by the Plan during 2008 from Pohnpei State Hospital. On the other hand, medical claims from local private healthcare providers decreased by $53,366 or 3.4% this year compared to last year. The decrease was brought by the full year implementation of the new Relative Value Unit (RVU) which became effective on March 1, 2007. The new fee schedules are designed to have uniform reimbursement rates to all participating local providers and also used as control mechanism to cut down unnecessary cost being charged to the Plan.

Off-island medical cost in 2008 has a minimal increase of $14,049 to $2,478,429 compared to last year figure of $2,464,380. Although, the Plan has done well in reducing the total number of off-island referrals, the increase is attributed by referral patients whose cases are considered dreaded diseases which require long in-patient stays and the increase of hospital rates on ancillary services.

Cost of airfare ticket for medical referral patients was almost the same level as last year with a minute decrease of 1.2%. The Plan paid a total of $306,001 in fiscal year 2008 compared to last year figure of $309,820. Although there was a decrease in the number of off-island referrals, the incessant rising of fuel cost in 2008 sternly affected the Plan in paying high cost of airfare for the off-island referrals.

Administrative Expenses and Fixed Assets Purchases

Net administrative expenses of $395,863 and fixed asset purchases of $10,035 were paid during fiscal year 2008. This was 21% less than the approved budget of $515,267 in 2008 and 26% less than the level of administrative cost allowed by law.

Administrative expenses for fiscal year 2008 declined by $18,649 or 4.5%. The decrease was brought by the remaining salaries of two key positions, Utilization Manager and Administrator that were not filled up for months during fiscal year 2008. The decrease of communication expense by 16% also contributed to the decrease of administration costs.

The five biggest administrative expenses paid by MiCare during fiscal year 2008 were: (1) salaries and benefits, $252,601; (2) travel, $37,022; (3) communication, $21,404; (4) supplies, $16,002 and office rental, $15,871. The Plan continues to adopt cost-cutting measures during fiscal year 2008 to stay financially above water during hard times.

Current Assets

Cash and cash equivalents improved from $110,781 to $153,227 or a 38% increase and this was attributed to cash provided by operating activities and investing activities.

Investments decreased by 42% or $372,710 to $505,740 due to partial redemption of investment of $400,000 to finance current operations.

Net accounts receivable decreased by 31% or $12,694 to $28,375 due primarily to improve collection of receivable and strict implementation of regulation not to underwrite and pay patient's co-payment to off-island hospitals.

Prepaid expenses were almost the same level as last year with a minimal increase of 0.4% to $222,468. The increase was brought by interest income earned from different escrow accounts. In fiscal year 2008, the balance of these accounts at Straub Clinic & Hospital, Honolulu Medical Group and St. Luke's Medical Center were $102,993, $10,042 and $109,433. These accounts were established as one of the requirements when Plan entered into a bilateral relationship with the providers. The deposits were placed in an interest bearing account that earn interest for the benefit of the program.

Current Liabilities

Accounts payable decreased by 35% or $819,436 from $2,337,542 in previous year to $1,518,106 in 2008. The decrease was largely due to payment of outstanding obligations to local private providers and off-island hospitals and the write-off of a $115,247 liability due to the FSM National Government.

Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated March 3, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements and can be obtained via the Office of the Public Auditor's website at www.fsmpublicauditor.fm.

Capital Assets and Debt Administration

Please refer to note 5 to the financial statements for additional information concerning capital assets. Additionally, the Plan had no long-term debt in fiscal years 2008, 2007 or 2006.

Economic Outlook

The Plan is now on the road of recovery after realizing positive operating results over the past two years thus eliminating almost 80% of its accumulated deficits. The main objective of the Plan in fiscal year 2009 is to eliminate the remaining accumulated deficits and move forward to building its capital reserve to ensure the financial solvency and sustainability of the program. It takes a lot of joint effort to stabilize its financial strength and the Plan is still not complacent on the outcome of the ensuing fiscal year due to ongoing global economic downturn. Management will continue to implement cost containment programs to closely monitor and control operational costs to ensure expenses are effectively managed within available resources. Management is developing a 5-Year Strategic Development Plan to serve as a guideline on program implementations and measures. With the approval and strict implementation of the 5-Year Strategic Development Plan in the next fiscal year, the Plan is in a strong position to meet its primary goal in regaining its financial health and to continue providing quality and comprehensive healthcare services to enrolled members.

MICARE PLAN, INC.

Statements of Net Deficiency
September 30, 2008 and 2007

ASSETS	2008	2007
Current assets:		
Cash and cash equivalents	$ 153,227	$ 110,781
Investments	505,740	878,450
Premiums receivable	260,993	268,892
Accounts receivable, net	28,375	41,069
Prepaid expenses	222,468	221,486
Total current assets	1,170,803	1,520,678
Noncurrent assets:		
Fixed assets, net	33,571	34,353
Total assets	$ 1,204,374	$ 1,555,031
LIABILITIES AND NET DEFICIENCY		
Current liabilities:		
Accounts payable - medical claims	$ 1,497,500	$ 2,212,743
Accounts payable - other	20,606	124,799
Total liabilities	1,518,106	2,337,542
Commitments and contingencies		
Net deficiency:		
Invested in capital assets	33,571	34,353
Unrestricted	(347,303)	(816,864)
Total net deficiency	(313,732)	(782,511)
Total liabilities and net deficiency	$ 1,204,374	$ 1,555,031

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Revenues, Expenses, and Changes in Net Deficiency
Years Ended September 30, 2008 and 2007

	2008	2007
Operating revenues:		
Insurance premiums	$ 5,481,462	$ 5,676,543
Miscellaneous	8,158	11,266
Total operating revenues	5,489,620	5,687,809
Operating expenses:		
Medical claims	4,757,448	4,833,920
Personnel services	252,601	270,881
Travel	37,022	18,581
Communication	21,404	25,422
Supplies	16,002	15,045
Rent	15,871	18,459
Contractual services	12,265	26,145
Utilities	11,148	9,837
Depreciation	10,067	11,374
Printing	4,249	6,088
Repairs and maintenance	3,447	5,538
Insurance	544	624
Miscellaneous	21,310	17,892
Total operating expenses	5,163,378	5,259,806
Earnings from operations	326,242	428,003
Non-operating revenues:		
Contribution from FSM National Government	-	300,000
Net increase in the fair value of investments	27,290	43,790
Other revenues	115,247	-
Total non-operating revenues	142,537	343,790
Change in net assets	468,779	771,793
Net deficiency at beginning of year	(782,511)	(1,554,304)
Net deficiency at end of year	$ (313,732)	$ (782,511)

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Premiums received	$ 5,510,213	$ 5,711,935
Medical claims and benefits paid	(5,472,691)	(5,622,533)
Cash paid to suppliers and employees	(385,791)	(377,109)
Net cash used for operating activities	(348,269)	(287,707)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(10,035)	(35,723)
Proceeds from sale of fixed assets	750	-
Net cash used for capital and related financing activities	(9,285)	(35,723)
Cash flows from investing activities:		
Withdrawals from investments	400,000	-
Net purchases, sales and maturities of investments	(22,370)	(48,082)
Interest and dividends received	22,370	47,059
Net cash (used in) provided by investing activities	400,000	(1,023)
Cash flows from noncapital financing activities:		
Contribution from the FSM National Government	-	300,000
Net change in cash and cash equivalents	42,446	(24,453)
Cash and cash equivalents at beginning of year	110,781	135,234
Cash and cash equivalents at end of year	$ 153,227	$ 110,781
Reconciliation of earnings from operations to net cash used for operating activities:		
Earnings from operations	$ 326,242	$ 428,003
Adjustment to reconcile earnings from operations to net cash used for operating activities:		
Depreciation	10,067	11,374
(Increase) decrease in assets:		
Premiums receivable	7,899	11,838
Accounts receivable	12,694	12,288
Prepaid expenses	(982)	38,584
Increase (decrease) in liabilities:		
Accounts payable - medical claims	(715,243)	(788,613)
Accounts payable - other	11,054	(1,181)
Net cash used for operating activities	$ (348,269)	$ (287,707)

See accompanying notes to financial statements.

(1) Reporting Entity

The MiCare Plan (the Plan) was created in 2003 by Public Law 12-77 of the Twelfth Congress of the Federated States of Micronesia. The purpose of the Plan is to provide, arrange for, pay for, or reimburse the costs of medical, dental and vision treatment and care, hospitalization, surgery, prescription drugs, medicine, prosthetic appliances, out-patient care, and other medical care benefits, in cash or the equivalent in medicines and supplies.

The Plan's financial statements are incorporated into the financial statements of the FSM National Government as a component unit.

(1) 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. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Plan has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement 34, retained earnings are presented in the following net asset categories:

- Investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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 could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of unbilled medical claims.

(2) Summary of Significant Accounting Policies, Continued

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 assets. Proprietary fund operating statements present increases and decreases in net total assets. 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

Revenue Recognition

Health care premiums from enrolled members of the Plan are reported as revenue in the period such becomes due.

Cash and Cash Equivalents

For the purposes of the statements of net deficiency and of cash flows, cash and cash equivalents are defined as cash in bank checking and savings accounts, and commercial paper with original maturities of three months or less from the date of acquisition.

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 FSM National Government.

The Plan establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

Prepayments

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying statements of net deficiency.

(2) Summary of Significant Accounting Policies, Continued

Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets. All of the assets have an estimated useful life of three to five years. The Plan capitalizes assets with individual values of $1,000 and over. Assets with a value below $1,000 are expensed in the year of purchase.

Medical Claims Payable

Medical claims payable represent the estimated liability on claims reported to the Plan and reserves for claims incurred but not yet reported. The liabilities for claims are determined using estimates of the ultimate net cost of all claims incurred through the financial statement date. While management believes that the liability for medical claims payable is adequate, such estimates may be more or less than the amounts ultimately paid when the claims are settled.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to correspond with the 2008 presentation.

New Accounting Standards

During fiscal year 2008, the Plan implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

(3) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

A. Deposits:

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 — Deposits that are federally insured or collateralized with securities held by the Plan or its agent in the Plan’s name;

Category 2 — Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution’s trust department or agent in the Plan's name; or

Category 3 — Deposits that are collateralized with securities held by the pledging financial institution’s trust department or agent but not in the Plan's name and non-collateralized deposits.

(3) Deposits and Investments

A. Deposits, Continued:

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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, 2008 and 2007, the carrying amount of the Plan's total cash and cash equivalents was $153,227 and $110,781 and the corresponding bank balance was $356,061 and $338,683, respectively, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008 and 2007, bank deposits in the amount of $110,989 and $109,668, respectively, were FDIC insured. The Plan does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. Management's confidence in the financial strength of their banking institutions was the basis of the decision to not require collateralization. No losses as a result of this practice were incurred for the years ended September 30, 2008 and 2007.

B. Investments:

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 — Investments that are insured or registered, or securities held by the Plan or its agent in the Plan's name;

Category 2 — Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Plan's name; or

Category 3 — Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Plan's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

(3) Deposits and Investments

B. Investments, Continued:

As of September 30, 2008 and 2007, investments at fair value are as follows:

	2008	2007
Fixed income securities:		
Domestic fixed income	$ 491,943	$ 847,659
Other investments:		
Money market funds	13,797	30,791
	$ 505,740	$ 878,450

As of September 30, 2008, the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Greater Than 10 Years	Fair Value
U.S. Treasury obligations	AAA	$ -	$ 15,038	$ -	$ -	$ 15,038
U.S. Government agencies obligations	AAA	219,101	40,888	-	-	259,989
Corporate bonds	AAA	-	29,408	-	-	29,408
Corporate bonds	AA1	-	10,545	-	-	10,545
Corporate bonds	AA2	-	15,127	-	-	15,127
Corporate bonds	AA3	14,531	13,047	-	-	27,578
Corporate bonds	A1	20,112	9,953	-	-	30,065
Corporate bonds	A2	9,127	14,629	-	-	23,756
Corporate bonds	A3	-	11,949	-	-	11,949
Corporate bonds	BAA1	-	29,224	-	-	29,224
Corporate bonds	BAA2	-	24,262	-	-	24,262
Corporate bonds	Not Rated	-	15,002	-	-	15,002
		$ 262,871	$ 229,072	$ -	$ -	$ 491,943

As of September 30, 2007, the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Greater Than 10 Years	Fair Value
U.S. Treasury obligations	AAA	$ 234,981	$ 147,143	$ -	$ -	$ 382,124
U.S. Government agencies obligations	AAA	205,075	115,031	20,394	-	340,500
Corporate bonds	AAA	-	10,098	-	-	10,098
Corporate bonds	AA1	-	10,265	-	-	10,265
Corporate bonds	AA2	-	10,048	-	-	10.048
Corporate bonds	A1	-	25,148	-	-	25,148
Corporate bonds	A2	-	24,775	-	-	24,775
Corporate bonds	BAA1	-	29,693	-	-	29,693
Corporate bonds	BAA2	-	-	15,008	-	15,008
		$ 440,056	$ 372,201	$ 35,402	$ -	$ 847,659

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

(3) Deposits and Investments, Continued

B. Investments, Continued:

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Plan will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Plan's investments are held and administered by trustees. 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, 2008 and 2007.

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, 2008, more than 5 percent of the Plan's investments are in Home Depot, Inc. corporate bonds and the Federal Home Loan Bank, which represent 51% and 6%, respectively, of the Plan's total investments. As of September 30, 2007, more than 5 percent of the Plan's investments are in the Federal Home Loan Bank, which represent 39% of the Plan's total 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.

(4) Accounts Receivable

A summary of accounts receivable at September 30, 2008 and 2007 are as follows:

	2008	2007
Accounts receivable	$ 102,821	$ 117,632
Allowance for doubtful accounts	(74,446)	(76,563)
	$ 28,375	$ 41,069

(5) Fixed Assets

Capital asset activities for the years ended September 30, 2008 and 2007, are as follows:

	Balance October 1, 2007	Additions	Deletions	Balance September 30, 2008
Office furniture, fixtures and equipment	$ 83,810	$ 5,235	$ (3,278)	$ 85,767
Vehicles	71,256	4,800	-	76,056
	155,066	10,035	(3,278)	161,823
Less accumulated depreciation	(120,713)	(10,067)	2,528	(128,252)
Net fixed assets	$ 34,353	$ (33)	$ (750)	$ 33,571

(5) Fixed Assets, Continued

	Balance October 1, 2006	Additions	Deletions	Balance September 30, 2007
Office furniture, fixtures and equipment	$ 54,905	$ 28,905	$ -	$ 83,810
Vehicles	64,438	6,808	-	71,256
	119,343	35,723	-	155,066
Less accumulated depreciation	(109,339)	(11,374)	-	(120,713)
Net fixed assets	$ 10,004	$ 24,349	$ -	$ 34,353

(6) Related Party Transactions

For the years September 30, 2008 and 2007, the Plan recorded expenses of $236,164 and $283,973, respectively, related to claims by Pohnpei State Hospital. Management of Pohnpei State Hospital is on the Plan's Board of Directors for the years September 30, 2008 and 2007. These medical claims are made under similar terms and conditions as exist with other health care providers.

(7) Commitments and Contingencies

Litigation

The Plan is a party to various legal proceedings, the ultimate impact of which is not currently predictable. Therefore, no liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome of these proceedings.

Self Insurance

The Plan carries vehicle insurance to cover its potential risks. 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.

Lease Commitments

The Plan has four operating leases as of September 30, 2008. One is a residential real estate lease for a contract employee and two represent leases for the main office in Pohnpei and one for a liaison office in Manila (one with lease term of one year, one for 2 years and two for 10 years). All leases have an option allowing the Plan to renew the lease upon expiration of the current term. It is likely that these options will be utilized by the Plan and the leases renewed except for the liaison office in Manila which is expected to be terminated at the end of fiscal year 2009. The approximate future minimum annual lease payments payable by the Plan are as follows:

(7) Commitments and Contingencies, Continued

Lease Commitments, Continued

Fiscal year ending September 30,	Total
2009	$ 23,930
2010	26,100
2011	26,100
2012	26,100
2013	26,100
2014 – 2018	130,500
2019 – 2023	130,500
2024 – 2028	130,500
2029 – 2033	130,500
	$ 650,330

(8) Contribution from the FSM National Government

On September 30, 2006, the Congress of the FSM appropriated $300,000 to the Plan for the purpose of partially paying the outstanding accounts payable of the Plan. The funds were received and recorded during the fiscal year 2007. No subsidy was received during fiscal year 2008. However, a $115,247 liability due to FSM National Government has been written-off during 2008 and has been recorded within the accompanying financial statements as non-operating revenue.

(9) Going Concern

As of September 30, 2008, the Plan has incurred a net asset deficiency of $313,732. Continuation of the Plan as a going concern is dependent on its ability to increase premium collections, reduce covered benefits and obtain financial support, if necessary, from the FSM National Government. These are the major steps that the Plan should take to stabilize its financial strength and improve the healthcare coverage of its members. Management's plans to address this matter include: (1) increase membership by making the enrollment mandatory to employees of FSM National Government and the State governments; (2) control members' utilization cost and general and administrative expenses by carefully reviewing claims from local provider, strict screening of off-island referrals and establish a receiving facility mechanism off-island; (3) support local State hospitals to improve diagnostic and treatment capabilities in order to reduce off-island referrals; (4) promote health education and awareness to members; (5) continue to negotiate discounted rate to off-island healthcare providers; and (6) provide public education to enrolled members and government leaders regarding the financial status of the Plan.

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

The Board of Directors
MiCare Plan, Inc.:

We have audited the financial statements of the MiCare Plan, Inc. (the "Plan"), as of and for the year ended September 30, 2008, and have issued our report thereon dated May 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of 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*.

We noted certain matters that we reported to management of the Plan in a separate letter dated May 12, 2009.

This report is intended solely for the information and use of the Board of Directors and management of the Plan and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

May 12, 2009