MICARE PLAN, INC.

(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

MICARE PLAN, INC.

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INDEPENDENT AUDITORS' REPORT

Chairman
Board of Directors
MiCare Plan, Inc.:

We have audited the accompanying statements of net assets (deficiency) of MiCare Plan, Inc. (the "Plan"), a component unit of the Federated States of Micronesia National Government, as of September 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets (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 MiCare Plan, Inc. as of September 30, 2009 and 2008, and the changes in its net assets 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 through 7 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 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 February 23, 2010, 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

February 23, 2010

MICARE PLAN, INC.

Management's Discussion and Analysis
Year Ending September 30, 2009

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, 2009. This discussion has been prepared by 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, which consists of four (4) member representatives from each state government, one (1) from the FSM National Government, and one (1) member representing the 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.

The accounts of the Plan are organized as a proprietary fund. Proprietary funds are used by governmental units that are operated in a manner similar to private business enterprises. The Plan's budget is prepared by management with the concurrence of the board of directors.

Fiscal year 2009 reported another successful financial result of the Plan. The year closed with a $569,137 net income, another remarkable and encouraging financial operating result that has happened over the past three years. Although there was a modest decrease in revenue collections, the decrease in medical expenses and the $100,000 appropriation received from the FSM Congress 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 eliminate the accumulated deficit and to make the program financially sustainable and stable. Once again, the Plan was successful in achieving this objective and this resulted in eliminating the accumulated deficit of $313,732 in 2008 and ending with net assets of $255,405 in 2009.

The following table summarizes the financial condition and operations of the Plan for the years ended September 30, 2009, 2008 and 2007.

Assets:	2009	2008	2007
Current assets	$ 1,373,171	$ 1,170,803	$ 1,520,678
Noncurrent assets	43,847	33,571	34,353
	$ 1,417,018	$ 1,204,374	$ 1,555,031
Liabilities and Net Assets			
Current liabilities	$ 1,161,613	$ 1,518,106	$ 2,337,542
Net Assets	255,405	(313,732)	(782,511)
	$ 1,417,018	$ 1,204,374	$ 1,555,031
Revenues, Expenses and Changes in Net Assets			
Operating revenues	$ 5,416,496	$ 5,489,620	$ 5,687,809
Operating expenses	4,997,250	5,163,378	5,259,806
Operating income	419,246	326,242	428,003
Non-operating revenues	149,891	142,537	343,790
Change in net assets	$ 569,137	$ 468,779	$ 771,793

Financial Highlights

- For fiscal year 2009, the Plan recorded an increase in total net assets of $569,137, compared to a $468,779 increase in fiscal year 2008.
- Operating revenues in fiscal year 2009 declined by $73,124 or 1% from the previous fiscal year.
- During fiscal year 2009, the Plan's total operating expenses were $4,997,250, which decreased by 3.2% compared with the prior year of $5,163,378.
- In fiscal year 2009, medical claims decreased by 4.8% to $4,527,179 as compared to $4,757,448 in fiscal year 2008.

Operating Revenues

Insurance premiums are the major source of revenue for the Plan's operation. In fiscal year 2009, insurance premiums resulted in a decrease of $74,616 to $5,406,846 compared to the previous fiscal year of $5,481,462. The decrease of about 1% in premiums was due to a decrease in the number of enrollees from Chuuk State, Kosrae and Pohnpei State Government.

Total premium contributions from the public sector were $4,300,591 in fiscal year 2009, which represents 80% of the total operating revenues from premium collections while total contributions from private sector, including individual accounts, was $1,106,255 or 20%.

Of total premiums collected of $4,300,591 from five participating government accounts, FSM National Government and agencies lead in terms of premium contributions, from which the Plan collected $1,879,245 (43.7%) followed by Pohnpei $1,570,426 (36.5%), Kosrae $443,601 (10.3%) Yap $227,875 (5.3%), and Chuuk $179,444 (4.2%).

For private sector contributions, participating private businesses in Pohnpei contributed $998,976 or (90.3%) in fiscal year 2009 followed by Yap $74,968 (6.8%), Chuuk $19,540 (1.7%), and Kosrae $12,771 (1.2%).

The Plan has also collected miscellaneous income of $9,650 in fiscal year 2009, an increase of 18% from previous year of $8,158.

Operating Expenses

Total operating expenses for fiscal year 2009 decreased by 3.2% to $4,997,250 compared to $5,163,378 last year. Medical claims and administrative expenses are the two types of operating expenses of the Plan. As compared to fiscal year 2008, total medical expenses decreased by $230,269 or 4.8% while general and administrative expenses increased by $64,141 or 15.8% with an overall net decrease in expenses for the year of $166,128. The significant decrease of 3.2% was due to decrease of off-island medical expenses. The following table below indicates the medical expenses by type of claims for fiscal years 2009, 2008 and 2007.

Type of Claims	2009	2008	2007
Local State Hospitals	$ 577,518	$ 452,086	$ 483,582
Local Private Providers	1,545,087	1,518,232	1,571,598
Off-island Hospitals	2,065,113	2,478,429	2,464,380
Patients Airfare	336,671	306,001	309,820
Patients Stipend	2,790	2,700	4,540
Total Medical Claims	$ 4,527,179	$ 4,757,448	$ 4,833,920

In fiscal year 2009, medical spending for off-island hospitals has the highest utilization rate of 46%, followed by local private providers 34%, local state hospitals 13%, patient airfare ticket and stipends 7%.

Medical claims from local state hospitals increased by $125,432 or 28% compared to FY 2008. The major contributory factor was due to the increase in medical claims received by the Plan during 2009 from Pohnpei State Hospital and Yap State Hospital. Medical claims from Kosrae and Chuuk State Hospitals remain the same for this year because these two hospitals are being paid through a monthly fixed amount of capitation.

On the other hand, medical claims from local private healthcare providers increased by $26,855 or 2% this year compared to last year. The increase was brought about by the rising number of claims received from a private dental clinic in Pohnpei. Medical claims from private medical clinics and hospital were reduced by $45,011 to $1,338,008 compared to last year figure of $1,383,019. Dental claims from private dental clinics increased from $135,213 in 2008 to $207,079 in 2009 resulting in an increase in cost of $71,866 or about 53%.

Off-island medical cost in 2009 has shown a tremendous decrease of $413,316 or 17% to $2,065,113 compared to last year figure of $2,478,429. Although the number of basic referral patients increased by around 6% in 2009, the significant reduction of medical cost off-island was attributed by the implementation of centralized medical coordination in Manila eliminating the services of medical coordinators, the strict enforcement of only approved healthcare facility for SR referrals, spreading the referrals to different hospitals based on their specialized cases and treatment, and strong utilization management and control to avoid paying unnecessary medical services without jeopardizing necessary high-quality healthcare.

During FY 2009, the Plan realized an increase in cost of airfare ticket of $30,670 or 10% as compared to FY 2008. The primary cause of the increase is the increase in the number of basic referrals in 2009 and incessant rising of airfare cost offered by Continental Airline.

Administrative Expenses and Fixed Assets Purchases

Net administrative expenses of $454,560 and fixed asset acquisitions of $25,787 were paid during fiscal year 2009. This was 8% less than the approved budget of $519,227 in 2009 and 12% less than the level of administrative cost allowed by law.

Administrative expenses for fiscal year 2009 increased by $64,141 or 16%. The increase was brought about by the salaries of the Administrator, Utilization Manager and Accountant I that were hired during fiscal year 2009 and the rental expense for the additional office space in 2009 used as the Board's conference room and Utilization Division office.

The five biggest administrative expenses paid by the Plan during fiscal year 2009 were: (1) salaries and benefits, $325,546; (2) travel, $31,793; (3) rent, $20,808; (4) supplies, $16,225 and communication, $13,755. While the Plan is still in the process of building up its capital reserve, cost containment measures will continue to play a vital role to ensure that the money expended are essential to carrying out the mission of the program.

Current Assets

Cash and cash equivalents significantly improved from $153,227 to $242,179 or a 58% increase and this was attributed to cash provided by operating activities and the money contributed by FSM Congress.

Investments increased by 19% or $95,982 to $601,722 compared to last year amount of $505,740. The increase in the investment was brought about by transferring $50,000 from the Plan's savings account to the investment fund, interest and dividends received of $19,424 and an increase in the fair value of investments of $26,558.

Accounts receivable increased by 132% or $37,323 to $65,698 in FY 2009 compared to prior year amount of $28,375. The increase of account receivable was due to uncollected amount of patient's share.

Prepaid expenses of $222,316 in 2009 were almost at the same level as last year. The balance of these accounts in FY 2009 are broken down as follows: Straub Clinic & Hospital $103,242, Honolulu Medical Group $10,055 and St. Luke's Medical Center $109,019. These accounts were established with the off-island healthcare providers and were deposited in an interest bearing account that earns interest for the benefit of the Plan.

Current Liabilities

Accounts payable decreased by 23% or $356,493 from $1,518,106 in previous year to $1,161,613 in 2009. The primary cause of change was largely due to payment of outstanding obligations to local private providers and off-island hospitals.

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 2009, 2008 or 2007.

Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated May 12, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements and can be obtained via the Office of the Public Auditor's website at www.fsmopa.fm.

Economic Outlook

The favorable and encouraging financial performance of the Plan in fiscal year 2009 marked the 3rd year of achieving a surplus from its financial operations. The elimination of the net deficiency and the increase in capital reserves are the significant highlights that the Plan achieved in 2009. Now that the Plan reached the ground of stability, the main focus of the Plan in the years ahead is to move forward in building its capital reserves to ensure the financial solvency and viability of the program. However, the future is still uncertain and embraces a lot of financial challenges that may cause the program to collapse. The Plan will continue to work hard in 2010 to be more focused in stabilizing the financial strength of the program and to improve the delivery of healthcare services to its members. The following are the plan of actions of the Plan in 2010: (1) rigorous implementation of cost containment measures to prevent waste and inefficiency that could bring down utilization costs; (2) to contract an individual or a firm to conduct medical claims audit and diagnostic capacity study; (3) to negotiate case rate and unified billing system with Manila providers; (4) to establish a receiving facility mechanism in Manila; (5) strict implementation of approved off-island healthcare facility for SR patients; (6) to negotiate fixed capitation payments to Pohnpei State Hospital and Yap State Hospital; (7) provide training opportunities to employees to improve their knowledge and skills; (8) improve public relations and information to enrolled members and government officials and to continue seeking additional funding from FSM Congress and; (9) upgrade the member's integrated database system.

The 5-Year Strategic Development Plan that the Board approved in 2009 will serve as directional tool for policy development and program delivery that will guide the Board, management and staff in dealing with the program implementations, measures and challenges. With all these in place, the Plan is in a better position and perspective to make the program financially solvent with stronger capacity to rebuild its reserves to sustain a plausible coverage in the years to come.

MICARE PLAN, INC.

Statements of Net Assets (Deficiency)
September 30, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash and cash equivalents	$ 242,179	$ 153,227
Investments	601,722	505,740
Premiums receivable	241,256	260,993
Accounts receivable, net	65,698	28,375
Prepaid expenses	222,316	222,468
Total current assets	1,373,171	1,170,803
Noncurrent assets:		
Fixed assets, net	43,847	33,571
Total assets	$ 1,417,018	$ 1,204,374
LIABILITIES AND NET ASSETS (DEFICIENCY)		
Current liabilities:		
Accounts payable - medical claims	$ 1,094,595	$ 1,497,500
Accounts payable - other	67,018	20,606
Total liabilities	1,161,613	1,518,106
Commitments and contingencies		
Net assets (deficiency):		
Invested in capital assets	43,847	33,571
Unrestricted	211,558	(347,303)
Total net assets (deficiency)	255,405	(313,732)
Total liabilities and net assets (deficiency)	$ 1,417,018	$ 1,204,374

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Revenues, Expenses, and Changes in Net Assets (Deficiency)
Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Insurance premiums	$ 5,406,846	$ 5,481,462
Miscellaneous	9,650	8,158
Total operating revenues	5,416,496	5,489,620
Operating expenses:		
Medical claims	4,527,179	4,757,448
Personnel services	325,546	252,601
Travel	31,793	37,022
Rent	20,808	15,871
Supplies	16,225	16,002
Depreciation	15,511	10,067
Communication	13,755	21,404
Utilities	12,685	11,148
Contractual services	12,500	12,265
Printing	5,460	4,249
Repairs and maintenance	4,205	3,447
Insurance	997	544
Miscellaneous	10,586	21,310
Total operating expenses	4,997,250	5,163,378
Earnings from operations	419,246	326,242
Non-operating revenues:		
Contribution from FSM National Government	100,000	-
Net increase in the fair value of investments	45,982	27,290
Other revenues	3,909	115,247
Total non-operating revenues	149,891	142,537
Change in net assets	569,137	468,779
Net deficiency at beginning of year	(313,732)	(782,511)
Net assets (deficiency) at end of year	$ 255,405	$ (313,732)

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Premiums received	$ 5,436,233	$ 5,510,213
Medical claims and benefits paid	(4,930,084)	(5,472,691)
Cash paid to suppliers and employees	(445,319)	(385,791)
Net cash provided by (used for) operating activities	60,830	(348,269)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(25,787)	(10,035)
Proceeds from sale of fixed assets	3,909	750
Net cash used for capital and related financing activities	(21,878)	(9,285)
Cash flows from investing activities:		
Withdrawals from (additions to) investments	(50,000)	400,000
Net purchases, sales and maturities of investments	(19,424)	(22,370)
Interest and dividends received	19,424	22,370
Net cash (used in) provided by investing activities	(50,000)	400,000
Cash flows from noncapital financing activities:		
Contribution from the FSM National Government	100,000	-
Net change in cash and cash equivalents	88,952	42,446
Cash and cash equivalents at beginning of year	153,227	110,781
Cash and cash equivalents at end of year	$ 242,179	$ 153,227
Reconciliation of earnings from operations to net cash provided by (used for) operating activities:		
Earnings from operations	$ 419,246	$ 326,242
Adjustment to reconcile earnings from operations to net cash provided by (used for) operating activities:		
Depreciation	15,511	10,067
(Increase) decrease in assets:		
Premiums receivable	19,737	7,899
Accounts receivable	(37,323)	12,694
Prepaid expenses	152	(982)
Increase (decrease) in liabilities:		
Accounts payable - medical claims	(402,905)	(715,243)
Accounts payable - other	46,412	11,054
Net cash provided by (used for) operating activities	$ 60,830	$ (348,269)

See accompanying notes to financial statements.

(1) Reporting Entity

MiCare Plan (the Plan) was created in 2003 by Public Law 12-77 of the Twelfth Congress of the Federated States of Micronesia (FSM) National Government. 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. The Plan is under the governance of a seven-member Board of Directors, four of whom represents each of the four states of the FSM, one represents the FSM National Government, and one the private healthcare sector. These six members are appointed by the FSM President with the confirmation of the FSM Congress. The seventh member of the Board is the Plan Administrator who is selected by the Board and serves as an ex-officio member.

(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. 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 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* 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:

- Invested 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.

(2) Summary of Significant Accounting Policies, Continued

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.

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 assets 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.

(2) Summary of Significant Accounting Policies, Continued

Premiums Receivable

Premiums receivable are primarily due from the FSM National Government. The Plan establishes an allowance for uncollectible accounts based on the credit risk of specific customers, historical trends and other information. 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 evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

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 assets.

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.

New Accounting Standards

During fiscal year 2009, the Plan implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which 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 June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 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 March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. 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.

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, 2009 and 2008, the carrying amount of the Plan’s total cash and cash equivalents was $242,179 and $153,227, respectively, and the corresponding bank balance was $622,409 and $356,061, respectively, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of $262,268 and $110,989, 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, 2009 and 2008.

(3) Deposits and Investments, Continued

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.

As of September 30, 2009 and 2008, investments at fair value are as follows:

	2009	2008
Fixed income securities:		
Domestic fixed income	$ 569,943	$ 491,943
Other investments:		
Money market funds	31,779	13,797
	$ 601,722	$ 505,740

As of September 30, 2009, 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	$ -	$ 15,395	$ -	$ -	$ 15,395
U.S. Government agencies obligations	AAA	49,985	198,021	-	-	248,006
Corporate bonds	AAA	-	10,748	-	-	10,748
Corporate bonds	AA1	-	21,206	-	-	21,206
Corporate bonds	AA2	-	36,999	-	-	36,999
Corporate bonds	AA3	-	28,247	2,974	-	31,221
Corporate bonds	A1	-	28,630	2,022	-	30,652
Corporate bonds	A2	5,061	73,883	2,048	-	80,992
Corporate bonds	A3	-	31,450	-	-	31,450
Corporate bonds	BAA1	-	42,013	-	-	42,013
Corporate bonds	BAA2	-	21,261	-	-	21,261
		$ 55,046	$ 507,853	$ 7,044	$ -	$ 569,943

(3) Deposits and Investments, Continued

B. Investments, Continued:

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

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

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, 2009 and 2008.

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, 2009, more than 5 percent of the Plan's investments are in Federal Home Loan Bank, Federal National Mortgage Association, and Home Depot Inc. corporate bonds, which represent 25%, 13% and 5%, respectively, of the Plan's total investments. 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.

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, 2009 and 2008 are as follows:

	2009	2008
Accounts receivable	$ 136,471	$ 102,821
Allowance for doubtful accounts	(70,773)	(74,446)
	$ 65,698	$ 28,375

(5) Fixed Assets

Capital asset activities for the years ended September 30, 2009 and 2008, are as follows:

	Balance October 1, 2008	Additions	Deletions	Balance September 30, 2009
Office furniture, fixtures and equipment	$ 85,767	$ 5,452	$ (3,850)	$ 87,369
Vehicles	76,056	20,335	(16,658)	79,733
	161,823	25,787	(20,508)	167,102
Less accumulated depreciation	(128,252)	(15,511)	20,508	(123,255)
Net fixed assets	$ 33,571	$ 10,276	$ -	$ 43,847

	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

(6) Related Party Transactions

For the year ended September 30, 2008, the Plan recorded expenses of $236,164 related to claims by Pohnpei State Hospital. Management of Pohnpei State Hospital is on the Plan's Board of Directors for the year ended September 30, 2008. These medical claims are made under similar terms and conditions as exist with other health care providers. During the year ended September 30, 2009, the management of Pohnpei State Hospital was no longer represented on the Plan's Board of Directors.

(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 five operating leases as of September 30, 2009. Two are residential real estate lease for contract employees and two represent leases for the main office in Pohnpei, and one for a liaison office in Manila (three with lease term of one year 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. The approximate future minimum annual lease payments payable by the Plan are as follows:

Fiscal year ending September 30,	Total
2010	$ 33,300
2011	33,300
2012	33,300
2013	33,300
2014	33,300
2015 – 2019	166,500
2020 – 2024	166,500
2025 – 2029	166,500
2030 – 2034	166,500
	$ 832,500

(8) Contribution from the FSM National Government

On September 30, 2008, the Congress of the FSM National Government appropriated $100,000 to the Plan for the purpose of partially paying the outstanding accounts payable of the Plan. The funds were received and recorded during the year ended September 30, 2009. No subsidy was received during the year ended September 30, 2008; however, a liability due to the FSM National Government in the amount of $115,247 was written-off during the year ended September 30, 2008 and was recorded within the accompanying financial statements as non-operating revenue.

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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 Directors
MiCare Plan, Inc.:

We have audited the financial statements of MiCare Plan, Inc. (the "Plan"), as of and for the year ended September 30, 2009, and have issued our report thereon dated February 23, 2010. 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 February 23, 2010.

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

February 23, 2010