MICARE PLAN, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

MICARE PLAN, INC.

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Years Ended September 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Chairman
Board of Directors
MiCare Plan, Inc.:

We have audited the accompanying statements of net assets of MiCare Plan, Inc. (the "Plan"), a component unit of the Federated States of Micronesia National Government, as of September 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets 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, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2013, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte + Touche LLP

June 12, 2013

The following discussion and analysis on the financial performance and activity of MiCare Plan is to provide an introduction and understanding on the basic financial statements of the Plan for the fiscal year ended September 30, 2012. 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.

Background

MiCare Plan, formerly known as the Federated States of Micronesia (FSM) National Government Employee's Health Insurance Plan, was established by the FSM Congress under Public Law 3-82 that was enacted on 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 to the Plan is optional for employees and employers, both public and private entities, in the Federated States of Micronesia with the exception of FSM National Government employees wherein their enrollment to the program is mandatory. Premiums are paid on a fixed bi-weekly rate for the three plan options: basic option, supplemental resident option, and supplemental non-resident option.

The Plan is under the governance of the Board of Directors, which consists of four (4) member representatives from each FSM 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.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Plan. There are three financial statements presented, namely the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements present the overall financial picture of the Plan from the economic resources measurement focus using the accrual basis of accounting.

The accounts of MiCare 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. MiCare's budget is prepared by management with the concurrence of the board of directors.

Financial Highlights

- Total net assets decreased by $345,625 or 49% from $703,225 of net assets in 2011.
- Total liabilities for medical claims increased by $405,641 to $1,543,455 in 2012 as compared to $1,137,814 in 2011.
- Total operating revenues increased by $24,846 or less than 1% from $5,445,591 in 2011 to $5,470,437 in 2012.
- Total operating expenses increased by $258,164 or 4% from $5,677,342 in 2011 to $5,935,506 in 2012.
- Total non-operating revenues decreased by $9,334 or 7% from $128,778 in 2011 to $119,444 in 2012.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the Plan as of the end of the fiscal year. This statement is a point of time financial statement. The purpose of the statement of net assets is to present to the readers of the financial statements a fiscal snapshot of the Plan. The statement of net assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the data presented, readers of the statement of net assets are able to determine the assets available to continue the operations of the Plan. They also are able to determine how much the Plan owes vendors and others. Finally, the statement of net assets provides a picture of the net assets (assets minus liabilities), which is a useful indicator of whether the overall financial position of the Plan is improving or weakening.

The following table summarizes the financial condition of MiCare Plan for the years ended September 30, 2012, 2011 and 2010.

	2012	2011	2010
Assets:			
Current assets	$ 1,988,334	$ 1,933,788	1,640,829
Noncurrent assets	22,343	27,349	55,581
Total assets	$ 2,010,677	$ 1,961,137	$1,696,410
Liabilities:			
Current liabilities	$ 1,653,077	$ 1,257,912	890,212
Net assets:			
Invested in capital assets	22,343	27,349	55,581
Unrestricted	335,257	675,876	750,617
Total net assets	357,600	703,225	806,198
Total liabilities and net assets	$ 2,010,677	$ 1,961,137	$ 1,696,410

Current assets increased by $54,546 or 3% compared to prior year. Cash and cash equivalents increased by $43,566 or 19%. Investments increased by $18,327 or 1% compared to last year of $1,236,564. Premium receivables slightly decreased by 10% while accounts receivable increased from $1,381 to $7,272. Noncurrent assets comprised the Plan's property and equipment, net of accumulated depreciation. The decrease of noncurrent assets in 2012 was primarily due to the current year's depreciation expense of $11,256, net of asset additions for purchase of equipment in the amount of $6,250. For additional information concerning capital assets, please see note 5 to the financial statements.

Current liabilities of $1,653,077 increased by $395,165, or 31%, from $1,257,912 in 2011. The primary cause of the change was due to outstanding obligations to health care providers that were received at year end. Net assets for the year 2012 decreased by 49% to $357,600 compared to 2011 of $703,225.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the statement of net assets are based on the activity in the statement of revenues, expenses and changes in net assets. The purpose of this statement is to present the revenues received by the Plan, both operating and non-operating, and expenses incurred by the Plan, operating and non-operating, and any revenues, expenses, gains and losses received or spent by the Plan.

Insurance premiums collected from plan members are the major source of operating revenues of MiCare Plan. Operating expenses are those medical expenses incurred by plan members and the necessary cost to administer the Plan to carry out its mission. Non-operating revenues are revenues received for which goods or services are not provided such as investment income, appropriations from FSM National Government and others.

The following table summarizes the financial operations of MiCare Plan for the years ended September 30, 2012, 2011 and 2010:

	2012	2011	2010
Operating revenues	$ 5,470,437	$ 5,445,591	$ 5,392,262
Operating expenses	5,935,506	5,677,342	5,043,359
Net operating income (loss)	(465,069)	(231,751)	348,903
Non operating revenues	119,444	128,778	201,890
Change in net assets	(345,625)	(102,973)	550,793
Net assets, beginning of year	703,225	806,198	255,405
Net assets, end of year	$ 357,600	$ 703,225	$ 806,198

In fiscal year 2012, the gross premiums collection was $5,519,592. The following table indicates premium collections from public and private sector enrollees for fiscal year 2012, 2011 and 2010.

	2012	2011	2010
Public Sector	$4,335,222	$ 4,308,482	$ 4,254,829
Private Sector	1,184,370	1,143,449	1,160,846
Total	$ 5,519,592	$ 5,451,931	$ 5,415,675

Premium contributions from public sector in 2012 increased by $26,740 (less than 1%) compared to last fiscal year. Private Sector contributions of $1,143,449 increased by $40,921 or 3% in FY 2011 to $1,184,370 in FY 2012.

Among the Public entities, FSM National Government and its agencies had the highest premium contribution to the Plan in 2012, from which the Plan collected $1,876,152 (43%); followed by Pohnpei State Government and its agencies $1,665,645 (38%); Kosrae $413,253 (10%); Yap $238,488 (6%) and Chuuk $141,684 (3%).

FSM National Government	$1,876,152
Pohnpei State Government	$1,665,645
Kosrae State Government	$ 413,253
Yap State Government	$ 238,488
Chuuk State Government	$ 141,684

For private sector contributions, private businesses in Pohnpei contributed $1,047,279 (or 88%) in fiscal year 2012 followed by Yap $92,346 (or 8%); Chuuk $34,888 (3%) and Kosrae $9,857 (1%).

Total operating expenses for fiscal year 2012 increased by 4.5% to $5,935,506 compared to $5,677,342 of last year. Medical claims and administrative expenses are the two major types of operating expenses of the Plan. Medical expenses of $5,430,561 in fiscal year 2012 increased by $250,102 compared to $5,180,459 of last year. The following table below indicates the medical expenses by type of claims for fiscal year 2012, 2011 and 2010.

Type of Claims	2012	2011	2010
Local State Hospitals	$ 752,762	$ 664,742	$ 701,626
Local Private Providers	1,703,481	1,582,578	1,390,465
Off-island Hospitals	2,633,758	2,600,962	2,160,916
Patients Airfare	339,950	331,277	278,330
Patients Stipend	610	900	3,600
Total Medical Claims	$ 5,430,561	$ 5,180,459	$ 4,534,937

This FY2012, Yap State Hospital started receiving the monthly capitation like all the other States. During this fiscal year, there was an increase in medical claim expenses to the State hospitals due to step-up of monthly capitation approved by the Board.

The local private providers showed an increase of $120,903 as a result of members choosing use of private health providers over State hospitals.

Off-island medical expenses showed an increase of $32,796 or 1% to $2,633,758 compared to the fiscal year 2011 of $2,600,962. The larger percentage of this increase is attributed to the increase in number of off-island referrals and the global increase in the cost of health services.

Patient airfare costs increased by 2% or $8,673 in fiscal year 2012 in comparison to fiscal year 2011.

Net administrative expenses of $504,945 are about 9% less than the approved budget of $560,245 for fiscal year 2012. Overall increase in administration expenses is about 1% compared to fiscal year 2011.

Management's Discussion and Analysis for the fiscal year ended September 30, 2011 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated May 7, 2012. That Discussion and Analysis explains the major factors impacting the 2011 financial statements and can be obtained via the Office of the Public Auditor's website at www.fsmopa.fm.

Economic Outlook

In fiscal year 2013, MiCare will continue to closely monitor its collections and expenditures and enforce cost control measures at all levels. A 15.5% increase in premium will go into effect in fiscal year 2013. This increase is based on the actuarial study that was done in 2007, and its purpose is to help pay for the deficit incurred from previous fiscal year and cushion the impact of the increase in the cost of medical care and the increase in the number of off-island referrals. MiCare is experiencing a decrease in the net asset and is expecting the same thing to happen in FY 2013. MiCare Plan's greatest challenge is to ensure that the Plan is financially stable and fit to face serious challenges, and to do this, MiCare must build a strong capital reserve. Management will continue to pay attention to ways that will reduce medical costs and operational expenditures in order to increase the net assets of the Plan.

The long term and measures to increase net assets include the following strategic goals and objectives which will be incorporated into the 2nd 5-Year Strategic Plan 2014-2018):

Strategic Goal I: Increase and Maintain Net Worth to at least 2010 Level ($808,000)

Objective A	By FY2015, defer referral benefits for new enrollees to commence 6 months after enrollment
Objective B:	By FY2015, Implement the FSM Centralized Diagnostic Facilities (See Strategic Goal 4)
Objective C:	By FY2016, eliminate current refill program
Objective D:	By FY2016, limiting number of basic referrals to 20 per month, except emergency referrals.
Objective E:	By FY2017, amend the MiCare legislation to require "pre-existing conditions" as an enrollment prerequisite

Strategic Goal 4: Implement and operate a Centralized Diagnostic Facility in the FSM by FY2017

Objective A:	By 2014, register supports from 5 Governments and private providers through a National/States Referral Conference
Objective B:	By 2014, Enter into Agreement with 5 Governments for a collaborative supports to the Facility
Objective C:	By 2015, Conduct a Feasibility Study by a Consultant Group with projected Scope, costs and financing
Objective D:	By 2016, Secure funding from governments and from the interested health facilities implement the project.

Strategic Goal 7: Conduct Annual Claim Audits to private clinics

Objective A:	Request at least $100,000 per year for Board's approval
Objective B:	Execute a Service Contract with a qualified consultant to perform the annual claim audit
Objective C:	By FY14, conduct first claims audits in FSM and in selected foreign facilities

MICARE PLAN, INC.

Statements of Net Assets
September 30, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash and cash equivalents	$ 276,841	$ 233,275
Investments	1,254,891	1,236,564
Premiums receivable	223,714	247,412
Accounts receivable, net	7,272	1,381
Prepaid expenses	225,616	215,156
Total current assets	1,988,334	1,933,788
Fixed assets, net	22,343	27,349
Total assets	$ 2,010,677	$ 1,961,137
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable - medical claims	$ 1,543,455	$ 1,137,814
Accounts payable - other	109,622	120,098
Total liabilities	1,653,077	1,257,912
Commitments and contingencies		
Net assets:		
Invested in capital assets	22,343	27,349
Unrestricted	335,257	675,876
Total net assets	357,600	703,225
Total liabilities and net assets	$ 2,010,677	$ 1,961,137

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Insurance premiums	$ 5,519,592	$ 5,451,931
Miscellaneous	2,405	2,075
	5,521,997	5,454,006
Less uncollectable accounts	(51,560)	(8,415)
Total operating revenues	5,470,437	5,445,591
Operating expenses:		
Medical claims	5,430,561	5,180,459
Personnel services	295,906	332,815
Travel	55,531	27,761
Supplies	25,836	13,950
Contractual services	24,550	23,800
Rent	19,955	18,900
Utilities	13,823	10,760
Communications	13,170	13,948
Depreciation	11,256	15,556
Repairs and maintenance	5,882	6,138
Printing	4,559	5,473
Insurance	1,001	1,023
Miscellaneous	33,476	26,759
Total operating expenses	5,935,506	5,677,342
Loss from operations	(465,069)	(231,751)
Non-operating revenues (expenses):		
Contribution from FSM National Government	100,000	100,000
Net increase in the fair value of investments	18,326	16,824
Other revenues	1,118	26,954
Loss on disposal of fixed assets	-	(15,000)
Total non-operating revenues (expenses), net	119,444	128,778
Change in net assets	(345,625)	(102,973)
Net assets at beginning of year	703,225	806,198
Net assets at end of year	$ 357,600	$ 703,225

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Premiums received	$ 5,488,245	$ 5,435,831
Medical claims and benefits paid	(5,024,920)	(4,899,913)
Cash paid to suppliers and employees	(514,626)	(384,373)
Net cash provided by (used for) operating activities	(51,301)	151,545
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(6,251)	(2,324)
Cash flows from investing activities:		
Additions to investments	-	(200,000)
Net purchases, sales and maturities of investments	(18,226)	(25,931)
Interest and dividends received	19,344	52,886
Net cash provided by (used for) investing activities	1,118	(173,045)
Cash flows from noncapital financing activities:		
Contribution from the FSM National Government	100,000	100,000
Net change in cash and cash equivalents	43,566	76,176
Cash and cash equivalents at beginning of year	233,275	157,099
Cash and cash equivalents at end of year	$ 276,841	$ 233,275
Reconciliation of loss from operations to net cash provided by (used for) operating activities:		
Loss from operations	$ (465,069)	$ (231,751)
Adjustment to reconcile loss from operations to net cash provided by (used for) operating activities:		
Depreciation	11,256	15,556
Bad debts	51,560	8,415
(Increase) decrease in assets:		
Premiums receivable	23,698	(14,691)
Accounts receivable	(57,451)	(3,485)
Prepaid expenses	(10,460)	9,800
Increase (decrease) in liabilities:		
Accounts payable - medical claims	405,641	280,546
Accounts payable - other	(10,476)	87,155
Net cash provided by (used for) operating activities	$ (51,301)	$ 151,545

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, equity is 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 2012, the Plan implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

(3) Deposits and Investments

A. Deposits:

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, 2012 and 2011, the carrying amount of the Plan's total cash and cash equivalents was $276,841 and $233,275, respectively, and the corresponding bank balance was $538,020 and $419,150, respectively, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits in the amount of $531,099 and $411,110, 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, 2012 and 2011.

B. Investments:

As of September 30, 2012 and 2011, investments at fair value are as follows:

	2012	2011
Fixed income securities:		
Domestic fixed income	$ 1,207,076	$ 1,228,998
Other investments:		
Money market funds	47,815	7,566
	$ 1,254,891	$ 1,236,564

(3) Deposits and Investments, Continued

B. Investments, Continued:

As of September 30, 2012, 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	$ 51,302	$ 248,741	$ -	$ -	$ 300,043
U.S. Government agencies obligations	AAA	229,887	385,606	-	-	615,493
Corporate bonds	AAA	3,159	-	-	-	3,159
Corporate bonds	AA	60,174	12,032	-	-	72,206
Corporate bonds	A	-	169,610	-	-	169,610
Corporate bonds	BBB	-	41,422	-	-	41,422
Corporate bonds	Not Rated	-	5,143	-	-	5,143
		$ 344,522	$ 862,554	$ -	$ -	$ 1,207,076

As of September 30, 2011, 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	$ 45,088	$ 209,459	$ -	$ -	$ 254,547
U.S. Government agencies obligations	AAA	305,501	393,473	-	-	698,974
Corporate bonds	AAA	5,182	8,425	-	-	13,607
Corporate bonds	AA1	-	5,386	-	-	5,386
Corporate bonds	AA2	-	33,443	-	-	33,443
Corporate bonds	AA3	5,138	31,242	-	-	36,380
Corporate bonds	A1	7,113	27,153	2,102	-	36,368
Corporate bonds	A2	7,098	70,549	-	-	77,647
Corporate bonds	A3	-	20,894	2,101	-	22,995
Corporate bonds	BAA1	-	36,270	-	-	36,270
Corporate bonds	BAA2	-	8,318	-	-	8,318
Corporate bonds	Not Rated	5,063	-	-	-	5,063
		$ 380,183	$ 844,612	$ 4,203	$ -	$ 1,228,998

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, 2012 and 2011.

(3) Deposits and Investments, Continued

B. Investments, Continued:

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, 2012, the Plan's investments include fixed income securities of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which represent 29% and 20%, respectively, of the Plan's total investments. As of September 30, 2011, the Plan's investments include fixed income securities of the Federal Home Loan Bank, Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which represent 9%, 28%, and 14%, 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, 2012 and 2011 are as follows:

	2012	2011
Accounts receivable	$ 169,679	$ 112,363
Allowance for doubtful accounts	(162,407)	(110,982)
	$ 7,272	$ 1,381

(5) Fixed Assets

Capital asset activities for the years ended September 30, 2012 and 2011, are as follows:

	Balance October 1, 2011	Additions	Deletions	Balance September 30, 2012
Office furniture, fixtures and equipment	$ 73,654	$ 6,250	$ -	$ 79,904
Vehicles	55,753	-	-	55,753
	129,407	6,250	-	135,657
Less accumulated depreciation	(102,058)	(11,256)	-	(113,314)
	$ 27,349	$ (5,006)	$ -	$ 22,343

(5) Fixed Assets, Continued

	Balance October 1, 2010	Additions	Deletions	Balance September 30, 2011
Office furniture, fixtures and equipment	$ 86,330	$ 2,324	$ (15,000)	$ 73,654
Vehicles	55,753	-	-	55,753
	142,083	2,324	(15,000)	129,407
Less accumulated depreciation	(86,502)	(15,556)	-	(102,058)
	$ 55,581	$ (13,232)	$ (15,000)	$ 27,349

(6) 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, 2012, of which two are residential real estate leases for contract employees, 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
2013	$ 40,660
2014	38,400
2015	38,400
2016	38,400
2017	38,400
2018 – 2022	72,000
2023 – 2027	72,000
2028 – 2032	72,000
2033 – 2035	43,200
	$ 453,460

(7) Contribution from the FSM National Government

During the years ended September 30, 2012 and 2011, the Congress of the FSM National Government appropriated $100,000 each year to the Plan for the purpose of partially paying outstanding accounts payable of the Plan.

(8) Retirement Plan

The Plan has a retirement plan implemented effective June 1, 2012, administered by a private corporation. All permanent employees and contract employees with an employment contract of one or more years stated within the contract employment are eligible for the retirement plan. Employee contributions can be made at minimum of 3% up to 100% of earnings with a 100% match by the Plan up to 10% of employee compensation. The Plan Administrator is the designated retirement plan administrator. During the year ended September 30, 2012, the Plan incurred an expense of $2,571 for matching contributions. As of September 30, 2012, retirement plan assets were $4,616.

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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, 2012, and have issued our report thereon dated June 12, 2013. 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

Management of the Plan is responsible for establishing and maintaining effective 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 June 12, 2013.

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

June 12, 2013