

MICARE PLAN, INC.

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

MICARE PLAN, INC.
(A COMPONENT UNIT OF THE FEDERATED STATES OF
MICRONESIA NATIONAL GOVERNMENT)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
MiCare Plan, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of the MiCare Plan, Inc. (the "Plan"), a component unit of the Federated States of Micronesia National Government, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MiCare Plan, Inc. as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

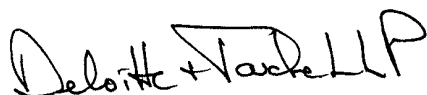
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2014, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.



June 3, 2014

MICARE PLAN, INC.
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Management's Discussion and Analysis
Years Ending September 30, 2013 and 2012

The following discussion and analysis on the financial performance and activity of MiCare Plan, Inc. (the Plan) is to provide an introduction and understanding on the basic financial statements of the Plan for the fiscal year ended September 30, 2013. 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 Federated States of Micronesia (FSM) National Government Employee's Health Insurance Plan, was established by the Federated States of Micronesia 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 FSM 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 five plan options: non-referral option, basic option, supplemental resident option, supplemental non-resident option, and regional/international workers option. The non-referral and regional/international workers options were newly introduced this fiscal year 2013.

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.

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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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 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.

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Years Ending September 30, 2013 and 2012

Financial Highlights

- Total net position increased by \$275,926 or 77% from \$357,600 net position in 2012.
- Total liabilities decreased by \$276,864 as compared to \$1,653,077 in 2012.
- Total operating revenues increased by \$559,564 or 10% from \$5,470,437 in 2012 to \$6,030,001 in 2013.
- Total operating expenses decreased by \$73,374 or 1% from \$5,935,507 in 2012 to \$5,862,133 in 2013.
- Total non-operating revenues decreased by \$11,387 or 9% from \$119,445 in 2012 to \$108,058 in 2013.

Statement of Net Position

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

From the data presented, readers of the statement of net position are able to determine the assets available to continue the operations of the Plan. They also are able to determine how much the Plan owes vendors and others. Finally, the statement of net position provides a picture of the net position (assets minus liabilities), 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, 2013, 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 1,950,089	\$ 1,988,334	\$ 1,933,788
Noncurrent assets	<u>59,650</u>	<u>22,343</u>	<u>27,349</u>
Total assets	<u>\$ 2,009,739</u>	<u>\$ 2,010,677</u>	<u>\$ 1,961,137</u>
Liabilities:			
Current liabilities	\$ <u>1,376,213</u>	\$ <u>1,653,077</u>	\$ <u>1,257,912</u>
Net position:			
Net investment in capital assets	59,650	22,343	27,349
Unrestricted	<u>573,876</u>	<u>335,257</u>	<u>675,876</u>
Total net position	<u>633,526</u>	<u>357,600</u>	<u>703,225</u>
Total liabilities and net position	<u>\$ 2,009,739</u>	<u>\$ 2,010,677</u>	<u>\$ 1,961,137</u>

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Current assets decreased by \$38,245 or 19% compared to prior year. Cash and cash equivalents decreased by \$158,371 or 57%. Investments increased by \$106,759 or 8% compared to last year of \$1,254,891. Premium receivables decreased by 6% while accounts receivable increased from \$7,272 to \$29,170. Noncurrent assets comprised the Plan's property and equipment, net of accumulated depreciation. The increase of noncurrent assets in 2013 was primarily due to the purchase of equipment and vehicles in the amount of \$43,901 and \$11,904, respectively, less current year's depreciation expense of \$18,498. For additional information concerning capital assets, please see note 5 to the financial statements.

Current liabilities of \$1,376,213 decreased by \$276,864, or 17%, from \$1,653,077 in 2012. The primary cause of the change was due to higher outstanding obligations to health care providers for medical claim expenses in 2012. Net position for the year 2013 increased by 77% to \$633,526 compared to 2012 of \$357,600.

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the statement of net position are based on the activity in the statement of revenues, expenses and changes in net position. 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, 2013, 2012 and 2011;

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 6,030,001	\$ 5,470,437	\$ 5,445,591
Operating expenses	5,862,133	5,935,507	5,677,342
Net operating income (loss)	167,868	(465,070)	(231,751)
Non operating revenues	<u>108,058</u>	<u>119,445</u>	<u>128,778</u>
Increase (decrease) in net position	275,926	(345,625)	(102,973)
Net position, beginning of year	<u>357,600</u>	<u>703,225</u>	<u>806,198</u>
Net position, end of year	\$ <u>633,526</u>	\$ <u>357,600</u>	\$ <u>703,225</u>

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In fiscal year 2013, gross operating revenue was \$6,030,001. The following table indicates premium collections from public and private sector enrollees for fiscal year 2013, 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Public Sector	\$ 4,616,812	\$ 4,335,222	\$ 4,308,482
Private Sector	<u>1,413,189</u>	<u>1,184,370</u>	<u>1,143,449</u>
Total	<u>\$ 6,030,001</u>	<u>\$ 5,519,592</u>	<u>\$ 5,451,931</u>

Premium contributions from public sector in 2013 increased by \$281,590 or 6% compared to last fiscal year. Private Sector contributions increased by \$228,819, or 19%, from FY 2012 to \$1,413,189 in FY 2013.

Among the Public entities, FSM National Government and its agencies had the highest premium contribution to the Plan in 2013, from which the Plan collected \$2,035,815 (44%); followed by Pohnpei State Government and its agencies \$1,765,670 (38%); Kosrae \$457,800 (10%); Yap \$237,904 (5%) and Chuuk \$119,623 (3%).

FSM National Government	\$2,035,815
Pohnpei State Government	\$1,765,670
Kosrae State Government	\$457,800
Yap State Government	\$237,904
Chuuk State Government	\$119,623

For private sector contributions, private businesses in Pohnpei contributed \$1,238,455 or 88% in fiscal year 2013 followed by Yap \$115,066 (8%); Chuuk \$31,538 (2%) and Kosrae \$28,130 (2%).

Total operating expenses for fiscal year 2013 decreased by 1% to \$5,862,133 compared to \$5,935,507 last year. Medical claims and administrative expenses are the two major types of Plan operating expenses. Medical expenses of \$5,306,712 in fiscal year 2013 decreased by \$123,849 compared to \$5,430,561 of last year. The following table below indicates the medical expenses by type of claims for fiscal year 2013, 2012 and 2011.

<u>Type of Claims</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Local State Hospitals	\$ 702,000	\$ 752,762	\$ 664,742
Local Private Providers	1,971,152	1,703,481	1,582,578
Off-island Hospitals	2,365,932	2,633,758	2,600,962
Patients Airfare	264,928	339,950	331,277
Patients Stipend	<u>2,700</u>	<u>610</u>	<u>900</u>
Total Medical Claims	<u>\$ 5,306,712</u>	<u>\$ 5,430,561</u>	<u>\$ 5,180,459</u>

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In FY2013, there was a slight change in the payment of capitation to the local state Hospitals which resulted in two months not being paid to Chuuk State Government because of non-payment of new premium rates effective 10/1/2012.

The local private providers showed an increase of \$267,671 as a result of an increase in the number of local private providers and members choosing to use the private health providers over the state hospitals.

Off-island medical expenses showed a decrease of \$267,826 or 10% to \$2,365,932 compared to fiscal year 2012 of \$2,633,758. The decrease is a result of an adjustment made due to an overestimation of off-island claims in FY 2012.

Patient airfare costs decreased by 22% or \$75,022 in fiscal year 2013 in comparison to fiscal year 2012.

Net administrative expenses of \$555,421 are about 15% less than the approved budget of \$653,692 for fiscal year 2013. The overall increase in administration expenses is about 10% compared to fiscal year 2012.

Management's Discussion and Analysis for the fiscal year ended September 30, 2012 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated June 12, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be obtained via the Office of the Public Auditor's website at www.fsmopa.fm or MiCare Plan's website at www.micareplan.fm.

Economic Outlook

In fiscal year 2014, Micare is performing two activities that were recommended in previous audits: claim audits and actuarial studies. The first activity which is the claims audit is put in place to help MiCare identify fraudulent and abusive claims by clinics; and the second activity which is the actuarial studies is to help MiCare understand and identify areas where MiCare needs to improve to ensure the financial viability of MiCare. MiCare will continue to closely monitor its collections and expenditures and enforce cost control measures at all levels. 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 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:

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Strategic Goal 1: Strengthen the Financial position of the Plan

- Objective 1.A: Increase net asset to \$2.5 million in FY2018
- Objective 1.B: Perform Actuarial surveys every 3 years and implement recommendations
- Objective 1.C: Perform annual claim audits and litigate abusive and fraudulent findings
- Objective 1.D: By FY2016, incorporate chronic refill into the RUV
- Objective 1.E: By FY2017, referral benefits to become effective 6 months after enrollment
- Objective 1.F: Beginning FY2014, retain administrative costs under 8% of projected revenue
- Objective 1.G: Retain accounts receivable below \$50,000 at end of each fiscal year
- Objective 1.H: Retain accounts payable below \$100,000 at end of each fiscal year
- Objective 1.I: By end of each fiscal year, promissory note unpaid balance would not exceed \$20,000
- Objective 1.J: By FY2017, reduce annual coverage to \$25,000 per year
- Objective 1.K: By FY2015, state/national leadership endorse a diagnostic facility in the FSM

Strategic Goal 2: Increase membership Enrollment

- Objective 2.A: By FY2014, Yap State Government participates in the Plan
- Objective 2.B: By School Year 2014-2105, COM students enroll in MiCare Plan
- Objective 2.C: By FY2015, FSM citizens in other jurisdictions are eligible to enroll in the Plan
- Objective 2.D: By FY2016, mandatory enrollment is implemented at the States
- Objective 2.E: By FY2015, States/National leadership endorses universal coverage

Strategic Goal 3: Diversify enrollment coverage benefits

- Objective 3.A: By FY2014, establish life insurance as optional benefits with appropriate premium rates
- Objective 3.B: Establish travel insurance as an optional benefits with appropriate premium rates
- Objective 3.C: Establish funeral insurance as an optional benefit with appropriate premium rates
- Objective 3.D: By FY2016, establish individual household account to cover outpatient and pharmacy services with appropriate premium rate
- Objective 3.E: By FY2016, establish referral and inpatient account with appropriate premium rates
- Objective 3.F: By FY2016, eliminate limitations in the number of children as dependents.

MICARE PLAN, INC.

Statements of Net Position September 30, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 118,470	\$ 276,841
Investments	1,361,650	1,254,891
Premiums receivable	211,253	223,714
Accounts receivable, net	29,170	7,272
Deposits with service providers	229,546	225,616
Total current assets	1,950,089	1,988,334
Fixed assets, net	59,650	22,343
Total assets	<u>\$ 2,009,739</u>	<u>\$ 2,010,677</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Accounts payable - medical claims	\$ 1,322,504	\$ 1,543,455
Accounts payable - other	53,709	109,622
Total liabilities	1,376,213	1,653,077
Commitments and contingencies		
Net position:		
Net investment in capital assets	59,650	22,343
Unrestricted	573,876	335,257
Total net position	633,526	357,600
Total liabilities and net position	<u>\$ 2,009,739</u>	<u>\$ 2,010,677</u>

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Insurance premiums	\$ 6,028,565	\$ 5,519,592
Miscellaneous	1,436	2,405
	6,030,001	5,521,997
Less uncollectable accounts	-	(51,560)
Total operating revenues	6,030,001	5,470,437
Operating expenses:		
Medical claims	5,306,712	5,430,561
Personnel services	326,480	295,906
Travel	56,806	55,531
Contractual services	28,257	24,550
Rent	18,634	19,955
Depreciation	18,498	11,256
Supplies	15,962	25,836
Utilities	15,185	13,823
Repairs and maintenance	14,937	5,882
Communications	12,573	13,170
Printing	7,135	4,559
Insurance	1,803	1,001
Miscellaneous	39,151	33,477
Total operating expenses	5,862,133	5,935,507
Income (loss) from operations	167,868	(465,070)
Non-operating revenues:		
Contribution from FSM National Government	100,000	100,000
Net increase in the fair value of investments	6,759	18,327
Other revenues	1,299	1,118
Total non-operating revenues	108,058	119,445
Change in net position	275,926	(345,625)
Net position at beginning of year	357,600	703,225
Net position at end of year	\$ 633,526	\$ 357,600

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Premiums received	\$ 6,020,564	\$ 5,488,244
Medical claims and benefits paid	(5,527,663)	(5,024,920)
Cash paid to suppliers and employees	(596,766)	(514,626)
Net cash used for operating activities	(103,865)	(51,302)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(55,805)	(6,250)
Cash flows from investing activities:		
Additions to investments	(100,000)	-
Net purchases, sales and maturities of investments	(14,598)	(18,226)
Interest and dividends received	15,897	19,344
Net cash provided by (used for) investing activities	(98,701)	1,118
Cash flows from noncapital financing activities:		
Contribution from the FSM National Government	100,000	100,000
Net change in cash and cash equivalents	(158,371)	43,566
Cash and cash equivalents at beginning of year	276,841	233,275
Cash and cash equivalents at end of year	\$ 118,470	\$ 276,841
Reconciliation of income (loss) from operations to net cash used for operating activities:		
Income (loss) from operations	\$ 167,868	\$ (465,070)
Adjustment to reconcile loss from operations to net cash used for operating activities:		
Depreciation	18,498	11,256
Bad debts	-	51,560
(Increase) decrease in assets:		
Premiums receivable	12,461	23,698
Accounts receivable	(21,898)	(57,451)
Deposits with service providers	(3,930)	(10,460)
Increase (decrease) in liabilities:		
Accounts payable - medical claims	(220,951)	405,641
Accounts payable - other	(55,913)	(10,476)
Net cash used for operating activities	\$ (103,865)	\$ (51,302)

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2013 and 2012

(1) Reporting Entity

MiCare Plan, Inc. (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.

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 position categories:

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of unbilled medical claims.

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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. 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 position and of cash flows, cash and cash equivalents are defined as cash in bank checking and savings accounts, and commercial paper with original maturities of three months or less from the date of acquisition.

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Premiums Receivable

Premiums receivable are primarily due from the FSM National Government. The Plan establishes an allowance for 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.

Deposits with Service Providers

Security deposits for medical claims are maintained for certain services providers and are recorded as deposits with service providers in the accompanying statements of net position.

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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies, Continued

Fixed Assets

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

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Plan has no items that qualify for reporting in this category.

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.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (addition of net position) until then. The Plan has no items that qualify for reporting in this category.

New Accounting Standards

During fiscal year 2013, the Plan implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.

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Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB 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. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

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.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Plan.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. 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, 2013 and 2012, the carrying amount of the Plan's total cash and cash equivalents was \$118,470 and \$276,841, respectively, and the corresponding bank balance was \$334,824 and \$538,020, respectively, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, bank deposits in the amount of \$260,104 and \$531,099, 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, 2013 and 2012.

B. Investments:

As of September 30, 2013 and 2012, investments at fair value are as follows:

	<u>2013</u>	<u>2012</u>
Fixed income securities:		
Domestic fixed income	\$ 1,302,949	\$ 1,207,076
Other investments:		
Money market funds	<u>58,701</u>	<u>47,815</u>
	<u>\$ 1,361,650</u>	<u>\$ 1,254,891</u>

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Notes to Financial Statements
September 30, 2013 and 2012

(3) Deposits and Investments, Continued

B. Investments, Continued:

As of September 30, 2013, the Plan's fixed income securities had the following maturities:

	Moody's <u>Credit Rating</u>	Less Than <u>1 Year</u>	1 to 5 <u>Years</u>	6 to 10 <u>Years</u>	Greater Than <u>10 Years</u>	Fair <u>Value</u>
U.S. Treasury obligations	AAA	\$ 225,564	\$ 330,038	\$ -	\$ -	\$ 555,602
U.S. Government agencies obligations	AAA	85,457	402,856	-	-	488,313
Corporate bonds	AAA	7,920	-	-	-	7,920
Corporate bonds	AA	50,061	8,993	-	-	59,054
Corporate bonds	A	-	142,510	-	-	142,510
Corporate bonds	BBB	-	49,550	-	-	49,550
		<u>\$ 369,002</u>	<u>\$ 933,947</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,302,949</u>

As of September 30, 2012, the Plan's fixed income securities had the following maturities:

	Moody's <u>Credit Rating</u>	Less Than <u>1 Year</u>	1 to 5 <u>Years</u>	6 to 10 <u>Years</u>	Greater Than <u>10 Years</u>	Fair <u>Value</u>
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
		<u>\$ 344,522</u>	<u>\$ 862,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,207,076</u>

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, 2013 and 2012.

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, 2013, the Plan's investments include fixed income securities of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which represent 23% and 13%, respectively, of the Plan's total investments. 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.

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September 30, 2013 and 2012

(3) Deposits and Investments, Continued

B. Investments, Continued:

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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Accounts receivable	\$ 191,492	\$ 169,679
Allowance for doubtful accounts	<u>(162,322)</u>	<u>(162,407)</u>
	<u>\$ 29,170</u>	<u>\$ 7,272</u>

(5) Fixed Assets

Capital asset activities for the years ended September 30, 2013 and 2012, are as follows:

	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2013</u>
Office furniture, fixtures and equipment	\$ 79,904	\$ 43,901	\$ -	\$ 123,805
Vehicles	<u>55,753</u>	<u>11,904</u>	<u>-</u>	<u>67,657</u>
	135,657	55,805	-	191,462
Less accumulated depreciation	<u>(113,314)</u>	<u>(18,498)</u>	<u>-</u>	<u>(131,812)</u>
	<u>\$ 22,343</u>	<u>\$ 37,307</u>	<u>\$ -</u>	<u>\$ 59,650</u>
	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2012</u>
Office furniture, fixtures and equipment	\$ 73,654	\$ 6,250	\$ -	\$ 79,904
Vehicles	<u>55,753</u>	<u>-</u>	<u>-</u>	<u>55,753</u>
	129,407	6,250	-	135,657
Less accumulated depreciation	<u>(102,058)</u>	<u>(11,256)</u>	<u>-</u>	<u>(113,314)</u>
	<u>\$ 27,349</u>	<u>\$ (5,006)</u>	<u>\$ -</u>	<u>\$ 22,343</u>

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Notes to Financial Statements
September 30, 2013 and 2012

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, 2013, of which three are residential real estate leases for contract employees, one represent a lease for the main office in Pohnpei, and one for a liaison office in Manila (four with lease term of one year and one for 5 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 <u>September 30,</u>	<u>Total</u>
2014	\$ 25,590
2015	24,000
2016	24,000
2017	<u>24,000</u>
	\$ <u>97,590</u>

(7) Contribution from the FSM National Government

During the years ended September 30, 2013 and 2012, 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 years ended September 30, 2013 and 2012, the Plan incurred an expense of \$8,787 and \$2,571, respectively, for matching contributions. As of September 30, 2013 and 2012, retirement plan assets were \$21,857 and \$4,616, respectively.

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the MiCare Plan, Inc. (the Plan), which comprise the statement of net position as September 30, 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

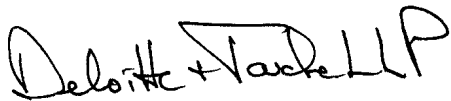
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Stach LLP". The signature is written in a cursive, stylized font.

June 3, 2014