FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN (A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

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Years Ended September 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
FSM National Government Employees' Health Insurance Plan:

Report on the Financial Statements

We have audited the accompanying financial statements of the FSM National Government Employees' Health Insurance Plan (the "Plan"), a component unit of the Federated States of Micronesia National Government, which comprise the statements of net position as of September 30, 2017 and 2016, 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 FSM National Government Employees' Health Insurance Plan as of September 30, 2017 and 2016, 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.

Deloitte.

Emphasis-of-Matters

Going Concern

The accompanying financial statements have been prepared assuming that the Plan will continue as a going concern. As discussed in Note 6 to the financial statements, the Plan has suffered recurring loss from operations and has a deficient unrestricted net position that raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 6 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Construction-in-Progress

An impairment analysis has not been performed for construction-in-progress as of September 30, 2017. The financial statements do not include adjustments, if any, that might result from the outcome of this matter.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 9 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 29, 2018, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 29, 2018

The following discussion and analysis on the financial performance and activity of FSM National Government Employee's Health Insurance Plan is to provide an introduction and understanding on the basic financial statements of the Plan for the fiscal year ended September 30, 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto, which follow this section.

Background

FSM National Government Employee's Health Insurance Plan (FSMNGEHIP or the 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 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 five plan options: non-referral option, basic option, supplemental resident option, supplemental non-resident option, and regional/international workers option.

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

Financial Highlights

- Net position decreased by $694,147 or 154% from $449,795 net position in 2016.
- Total liabilities increased by $2,225,000 or 73% as compared to $3,059,856 in 2016.
- Net operating revenues increased by $112,588 or 2% from $6,307,516 in 2016 to $6,420,104 in 2017.
- Total operating expenses increased by $396,281 or 5% from $7,221,635 in 2016 to $7,617,916 in 2017.
- Total non-operating revenues increased from $96,519 in 2016 to $503,665 in 2017.

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, 2017, 2016 and 2015.

Table 1: Summary Statements of Net Position of FSMNGEHIP

	2017	2016	2015
Assets:			
Current assets	$3,534,060	$1,873,695	$1,8007,572
Noncurrent assets	606,854	736,366	573,212
Total assets	$4,140,914	$2,610,061	$2,380,784
Liabilities:			
Current liabilities	5,284,856	3,059,856	2,012,979
Net position (deficiency):			
Net investment in capital assets	337,695	347,925	216,176
Unrestricted	(1,481,637)	(797,720)	151,629
Total net position (deficiency)	(1,143,942)	(449,795)	367,805
Total liabilities and net position	$4,140,914	$2,610,061	$2,380,784

Current assets increased by $1,660,695 compared to prior year. Cash and cash equivalents increased by $1,472,801. This increase was due to the slow payment process of medical claims. Investments increased by $2,231 compared to last year. Premium receivables increased by $175,816. Accounts receivable decreased to $9,517 from $19,080 in FY2016. Noncurrent assets comprised the Plan's property and equipment, net of accumulated depreciation. For additional information concerning capital assets, please see note 5 to the financial statements.

Current liabilities of $5,284,680 increased by $2,225,000 or 73%, in 2017 from $3,059,856 in 2016. Table 2 below gives a breakdown of what comprised the total liabilities as of September 30, 2017:

Table 2: Breakdown of Liabilities as of 09/30/17 for FSMNGEHIP

Incurred medical bills reported unpaid as of 09/30/17	$1,035,587
Incurred Bills Not Reported as of 09/30/17:	
Genesis Clinic (OP)-	1,085,082
Genesis Hospital (IP)	234,125
Genesis Dental	46,312
Berysin Community Health Center	14,380
Kaselehlie Dental	16,240
Medpharm	32,077
Pohnpei Family Health Clinic	18,148
Family Clinic & Pharmacy	2,344
Pohnpei State Hospital	635,038
Kosrae State Hospital	41,432
Chuuk State Hospital	18,939
Yap State Hospital	73,364
Total On-island Claims IBNR as of 09/30/17	2,217,481
Total Off-island Claims	2,073,824
The Medical City-Disputed Claims	593,816
Off-island Claims for Previous Years	335,222
Total Incurred Bills Not Reported as of 09/30/17	5,220,343
Other Payables_Administration	64,513
Total Liabilities as of 09-30-17	**$5,284,856**

The net position for the year 2017 decreased by ($694,147) leaving a net deficiency of ($1,143,942).

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 the 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 the Plan for the years ended September 30, 2017, 2016 and 2015;

Table 3: Summary of Financial Operations of FSMNGEHIP

	2017	2016	2015
Operating revenues	$6,420,104	$6,307,516	$5,941,554
Operating expenses	7,617,916	7,221,635	6,369,124
Loss from operations	(1,197,812)	(914,119)	(427,570)
Nonoperating revenues	503,665	96,519	97,793
Change in net position	(694,147)	(817,600)	(329,777)
Net position at beginning of year	(449,795)	367,805	697,582
Net position at end of year	$(1,143,942)	$ (449,795)	$ 367,805

In fiscal year 2017, the gross operating revenue collection was $6,420,104 (total revenue of $6,447,323 less uncollectible accounts of $27,219).

Table 4: Comparison of gross operating revenue for 2017, 2016 and 2015

	2017	2016	2015
Insurance premiums	$6,431,567	$6,413,857	$6,014,799
Miscellaneous	15,756	3,007	37,905
	$6,447,323	$6,416,864	$6,052,704

Table 5 below indicates health premium and extended pharmacy premium by state (both private and public) and national agencies (FSM National Government).

Table 5: Breakdown of premium collection by State and National in FY2017

Premiums and Other Revenue for Fiscal Year 2017

	Pohnpei State	Kosrae State	Chuuk State	Yap State	National Agencies	Overseas	Total Premium
Health Insurance Premiums	$4,024,296	$594,852	$194,261	$456,950	$1,125,142	$5,628	$6,401,129
Extended Pharmacy	23,638	700	300	5,600	-	200	30,438
	$4,047,934	$595,552	$194,561	$462,550	$1,125,142	$5,828	$6,431,567

Of the total amount of health premiums in fiscal year 2017, Pohnpei state had the highest premium contribution to the Plan, from which the Plan collected $4,047,934 (62.94%); followed by National and Overseas $1,130,970 (17.58%); Kosrae State $595,552 (9.26%); Yap State $462,550 (7.19%) and Chuuk State $194,561 (3.03%).

Table 6: Premium collection by States (Government agencies & Private businesses) & National Agencies

Government Agencies/Private Businesses by state	2017		2016		Increase / (Decrease)
	Amount	%	Amount	%	
Pohnpei State	$4,047,934	62.94%	$3,544,314	55.54%	7.40%
FSM National Government	1,130,970	17.58%	1,831,449	28.70%	-11.12%
Kosrae State	$595,552	9.26%	$525,583	8.24%	1.02%
Yap State	$462,550	7.19%	$320,054	5.02%	2.17%
Chuuk State	$194,561	3.03%	$160,187	2.51%	0.52%

The extended pharmacy coverage is optional and is only for members who need more than 30 supply of medicine. Total collection for extended pharmacy premium was $30,438. Pohnpei has the highest members under the extended pharmacy coverage followed by Yap, Kosrae, Chuuk and Overseas employees.

Total operating expenses for fiscal year 2017 increased by 5.49% to $7,617,916 compared to $7,221,635 of 2016. Medical claims and administrative expenses are the two major types of operating expenses of the Plan.

Table 7: Comparison of operating expenses for 2017, 2016 and 2015

	2017	2016	2015
Operating Expenses:			
Medical Claims	$7,137,451	$6,591,273	$5,815,946
Administration	480,465	630,362	553,178
	$7,617,916	$7,221,635	$6,369,124

Medical expenses of $7,137,451 in fiscal year 2017 increased by $546,178 (8.29%) compared to $6,591,273 of fiscal year 2016. The following table below indicates the medical expenses by type of claims for fiscal year 2017.

Table 8: Breakdown of cost associated to medical services / non-medical services

	Off island Claims	Airfare	Chronic Medicine	Shipment of Remains	Stipend / Visa	Capitation	On island Claims	Total Medical Expenses
Pohnpei	$2,261,072	$276,239	$21,511	$ 5,742	$2,995	$996,285	$1,421,741	$4,985,585
Kosrae	145,144	50,669	287	160	1,659	160,666	15	358,600
Chuuk	58,988	3,845	1,823	-	-	59,843	4,727	129,226
Yap	340,927	55,891	1,449	5,070	974	151,050	-	555,361
Overseas	18,675	-	1,188	-	-	-	-	19,863
Estimated PF	300,000	-	-	-	-	-	-	300,000
	3,124,806	386,644	26,258	10,972	5,628	1,367,844	1,426,483	6,348,635
TMC Disputed Amounts	593,816	-	-	-	-	-	-	593,816
TMC Security Deposit	100,000	-	-	-	-	-	-	100,000
Previous Year_Medical Expenses paid 2017	95,000	-	-	-	-	-	-	95,000
	788,816	-	-	-	-	-	-	788,816
Total Medical Expenses_FY2017	$3,913,622	$386,644	$26,258	$10,972	$5,628	$1,367,844	$1,426,483	$7,137,451

Net administrative expenses of $480,465 is $136,122 less than the approved budget of $616,587 for fiscal year 2017. Overall increase in administration expenses is about 24% compared to fiscal year 2016.

Management's Discussion and Analysis for the fiscal year ended September 30, 2016 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated June 28, 2017. That Discussion and Analysis explains the major factors impacting the 2016 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.

2017 & Beyond Outlook

The completion of the FY2017 audit coincides with the last few months of FY2018. Given the figures of 2017, it is difficult to say the Plan will overcome its deficit in FY2018 for several reasons: 1) the Plan has been receiving contributions from the FSM Congress since its last deficit from about 10 years ago and 2017 is the first year in a long time without such contribution; 2) a large number of bad debts, poorly planned agreements, and accounts payable from prior years will have spilled over into 2018, thereby increasing expenditures to a level not initially anticipated in-line with revenue projections at the end of the year; and 3) the ever increasing cost of health care – 2018 medical claims are likely to be no different from those in 2017.

Second 5-Year Strategic Plan

In order to get out of this financial crunch, a combination of several actions is needed especially in order to remain self-sustained. The former administrator laid out such action items in the second 5-year plan. First, one of the strategic goals of the Plan is to increase enrollment. That has always been an obvious goal but somehow fails to reach a desirable level. The Plan sees enrollment as having the potential to make positive changes especially when the insured population in all four States is below 50 percent. Second, the Plan needs to come up with a portfolio of health providers particularly in the Philippines whereby the Plan is knowledgeable of all aspects of the health facility, e.g. cost of CT scan, EKG, echo, MRI, cardiac surgeries, professional fees, room & board, etc. By creating a portfolio, the Plan can better manage its referral program much like how an investor manages its financial portfolio to increase benefits and minimize risk. This action item is aligned with management's response to the audit finding (audit of health care providers).

To be operated like a Business (to some extent)

A large portion of accounts receivables is from members' share of medical costs, airfare costs, and other costs in which members promised to pay (usually through promissory notes) the Plan but failed. Consequently, about half a million dollars in accounts receivables remains uncollected and this is impacting the Plan's efforts to expand benefits or coverage. Efforts, including the involvement of the FSM Department of Justice, are ongoing to collect from members who owe the Plan. Furthermore, the Plan is seriously considering denying all types of promissory notes to members as it moves forward in its attempt to overcome the deficient status.

Sustainability must be achieved and that calls for moving away from leniency and broken promises (promissory notes) and more towards enforcement to collect all members' share of medical claims, airfares, etc. in a timely and fair manner. It also calls for administration to cut unnecessary costs, either in supplies, rent, contractual, or personnel.

The Plan is to be run like a business but not to maximize profit but rather to attain a breakeven point.

This Management's Discussion and Analysis is designed to provide a general overview of the Plan's financial condition and performance. Questions concerning any of the information provided in this discussion and analysis or requests of information should be address to the Plan Administrator, Micare Plan, P.O. Box 2156, Kolonia, Pohnpei FM 96941.

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

Statements of Net Position
September 30, 2017 and 2016

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents	$ 1,968,401	$ 495,600
Investments	1,100,973	1,098,742
Premiums receivable	363,034	187,218
Receivable from FSM National Government	73,055	73,055
Accounts receivable, net	28,597	19,080
Total current assets	3,534,060	1,873,695
Capital assets:		
Nondepreciable capital assets	323,000	323,000
Capital assets, net of accumulated depreciation	14,695	24,925
	337,695	347,925
Deposits with service providers	269,159	388,441
Total assets	$ 4,140,914	$ 2,610,061
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable - medical claims	$ 5,220,343	$ 3,016,059
Accounts payable - other	64,513	43,797
Total liabilities	5,284,856	3,059,856
Commitments and contingencies		
Net position:		
Net investment in capital assets	337,695	347,925
Unrestricted	(1,481,637)	(797,720)
Total net position	(1,143,942)	(449,795)
Total liabilities and net position	$ 4,140,914	$ 2,610,061

See accompanying notes to financial statements.

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Insurance premiums	$ 6,431,567	$ 6,413,857
Miscellaneous	15,756	3,007
	6,447,323	6,416,864
Less uncollectible accounts	(27,219)	(109,348)
Net operating revenues	6,420,104	6,307,516
Operating expenses:		
Medical claims	7,137,451	6,591,273
Personnel services	344,158	388,853
Travel	28,226	46,264
Rent	25,642	25,634
Depreciation	16,244	20,891
Communications	14,150	13,129
Utilities	14,107	13,888
Supplies	11,982	15,452
Contractual services	10,674	46,040
Repairs and maintenance	4,239	1,489
Printing	3,892	412
Insurance	1,073	1,118
Miscellaneous	6,078	57,192
Total operating expenses	7,617,916	7,221,635
Loss from operations	(1,197,812)	(914,119)
Non-operating revenues:		
Contribution from FSM National Government	500,000	80,000
Net increase in the fair value of investments	2,231	15,660
Other revenues	1,434	859
Total non-operating revenues	503,665	96,519
Change in net position	(694,147)	(817,600)
Net position at beginning of year	(449,795)	367,805
Net position at end of year	$(1,143,942)	$ (449,795)

See accompanying notes to financial statements.

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN
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Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Premiums received	$ 6,234,771	$ 6,349,252
Medical claims and benefits paid	(4,933,167)	(5,424,016)
Cash paid to suppliers and employees	(324,223)	(761,256)
Net cash provided by operating activities	977,381	163,980
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(6,014)	(152,640)
Cash flows from investing activities:		
Withdrawals of investments	-	400,000
Net purchases, sales and maturities of investments	(10,952)	(12,466)
Interest and dividends received	12,386	13,325
Net cash provided by investing activities	1,434	400,859
Cash flows from noncapital financing activities:		
Contribution from the FSM National Government	500,000	6,945
Net change in cash and cash equivalents	1,472,801	419,144
Cash and cash equivalents at beginning of year	495,600	76,456
Cash and cash equivalents at end of year	$ 1,968,401	$ 495,600
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	$ (1,197,812)	$ (914,119)
Adjustment to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	16,244	20,891
Bad debts	27,219	109,348
(Increase) decrease in assets:		
Premiums receivable	(175,816)	35,085
Accounts receivable	(36,736)	(102,697)
Deposits with service providers	119,282	(31,405)
Increase (decrease) in liabilities:		
Accounts payable - medical claims	2,204,284	1,167,257
Accounts payable - other	20,716	(120,380)
Net cash provided by operating activities	$ 977,381	$ 163,980

See accompanying notes to financial statements.

(1) Reporting Entity

FSM National Government Employees' Health Insurance Plan also known as MiCare Plan, Inc. (the Plan) was initially created by Public Law 3-82 in 1984 and amended by Public Law 12-77 of the Twelfth Congress of the Federated States of Micronesia (FSM) National Government in 2003. 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 No. 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.

(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.

Investments

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

Premiums and Accounts Receivable

Premiums receivable are primarily due from the FSM National Government and its four States. Accounts receivable mainly include patient's share of the medical billings paid by the Plan. 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.

(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 represents 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 2017, the Plan implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

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

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

(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, 2017 and 2016, the carrying amount of the Plan’s total cash and cash equivalents was $1,968,401 and $495,600, respectively, and the corresponding bank balance was $2,047,395 and $578,203, respectively, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits in the amount of $254,010 and $259,833, 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, 2017 and 2016.

(3) Deposits and Investments, Continued

B. Investments:

As of September 30, 2017 and 2016, investments are as follows:

	2017	2016
Fixed income securities:		
Domestic fixed income	$ 1,072,260	$ 1,075,361
Other investments:		
Money market funds	28,713	23,381
	$ 1,100,973	$ 1,098,742

As of September 30, 2017, the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	5 to 10 Years	Fair Value
U.S. Treasury obligations	AAA	$ 154,880	$ 476,799	$ 49,211	$ 680,890
U.S. Government agencies obligations	AAA	24,936	19,891	-	44,827
Corporate bonds	Aaa	5,987	10,056	-	16,043
Corporate bonds	Aa	8,003	52,983	1,992	62,978
Corporate bonds	A	11,991	175,205	3,927	191,123
Corporate bonds	Baa	35,052	39,364	1,983	76,399
		$ 240,849	$ 774,298	$ 57,113	$ 1,072,260

As of September 30, 2016, the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	5 to 10 Years	Fair Value
U.S. Treasury obligations	AAA	$ 85,016	$ 326,900	$ -	$ 411,915
U.S. Government agencies obligations	AAA	285,364	25,022	-	310,387
Corporate bonds	Aaa	-	16,148	-	16,148
Corporate bonds	Aa	23,088	48,613	-	71,701
Corporate bonds	A	39,107	172,317	-	211,424
Corporate bonds	Baa	3,004	50,782	-	53,786
		$ 435,579	$ 639,782	$ -	$ 1,075,361

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 institution at September 30, 2017 and 2016.

(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, 2017, no investments in any one issuer represented five percent or more of total investments for the Plan. As of September 30, 2016, the Plan's investments include fixed income securities of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which represent 14% and 15%, 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.

The Plan categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Plan has the following recurring fair value measurements as of September 30, 2017 and 2016:

		Fair Value Measurements Using		
	September 30, 2017	Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income securities	$ 1,072,260	$ -	$ 1,072,260	$ -
Investments measured at amortized cost:				
Money market funds	28,713			
	$ 1,100,973			

		Fair Value Measurements Using		
	September 30, 2016	Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income securities	$ 1,075,361	$ -	$ 1,075,361	$ -
Investments measured at amortized cost:				
Money market funds	23,381			
	$ 1,098,742			

(4) Accounts Receivable

A summary of accounts receivable at September 30, 2017 and 2016 is as follows:

	2017	2016
Accounts receivable	$ 522,558	$ 485,822
Allowance for doubtful accounts	(493,961)	(466,742)
	$ 28,597	$ 19,080

(5) Fixed Assets

Capital asset activities for the years ended September 30, 2017 and 2016, are as follows:

	Balance October 1, 2016	Additions	Deletions	Balance September 30, 2017
Depreciable assets:				
Office furniture, fixtures and equipment	$ 135,142	$ -	$ -	$ 135,142
Vehicles	40,338	6,014	-	46,352
	175,480	6,014	-	181,494
Less accumulated depreciation	(150,555)	(16,244)	-	(166,799)
	24,925	(10,230)	-	14,695
Non-depreciable assets:				
Construction in progress	323,000	-	-	323,000
Capital assets, net	$ 347,925	$ (10,230)	$ -	$ 337,695

	Balance October 1, 2015	Additions	Deletions	Balance September 30, 2016
Depreciable assets:				
Office furniture, fixtures and equipment	$ 137,032	$ 4,938	$ (6,828)	$ 135,142
Vehicles	59,951	37	(19,650)	40,338
	196,983	4,975	(26,478)	175,480
Less accumulated depreciation	(135,007)	(20,891)	5,343	(150,555)
	61,976	(15,916)	(21,135)	24,925
Non-depreciable assets:				
Construction in progress	154,200	168,800	-	323,000
Capital assets, net	$ 216,176	$ 152,884	$ (21,135)	$ 347,925

(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 an operating lease as of September 30, 2017 for for the main office in Pohnpei with a 5-year term expiring on February 28, 2023. The lease has an option allowing the Plan to renew the lease upon expiration of the current term. It is likely that this option will be utilized by the Plan and the leases renewed. The future minimum lease payments are as follows:

Year Ending September 30,	Total
2018	$ 33,708
2019	32,071
2020	32,071
2021	32,071
2022	32,071
Thereafter	13,363
	$ 175,355

Going Concern

The accompanying financial statements have been prepared in conformity with GAAP, which contemplates the continuation of the Plan as a going concern. However, the Plan has sustained operating losses in recent years and as of September 30, 2017, the Plan has a negative current ratio. Furthermore, at September 30, 2017, a deficit unrestricted net position of $1,481,637 exists.

Management believes actions presently being undertaken are sufficient to improve the Plan's operating requirements in the implementation of a "5-year Strategic Plan 2014-2018", which established specific objectives up to year 2018. The goal of the strategic plan is to strengthen the Plan's financial solvency and operational efficiency, and increase enrollment of the Plan.

(6) Commitments and Contingencies, Continued

Disputed Payables

The Plan has not recorded certain disputed payables to a local service provider estimated at $533,000 as of September 30, 2017. The accompanying financial statements do not reflect adjustments, if any, that may result from resolution of this liability.

(7) Related Parties

During the years ended September 30, 2017 and 2016, the Congress of the FSM National Government (FSMNG) appropriated $500,000 and $80,000, respectively, to the Plan for the purpose of partially paying outstanding accounts payable of the Plan, of which $73,055 remain uncollected as of September 30, 2017 and 2016. The $73,055 receivable at September 30, 2017 and 2016 is being disputed and collection is dependent upon completion of a reconciliation between the Plan and the FSMNG. The accompanying financial statements do not reflect any adjustments that may result that may impact the recoverability of this asset.

As of September 30, 2017 and 2016, respectively, the Plan has recorded a $0 and $10,280 payroll liability to FSMNG, which is included as a component of accounts payable – other in the accompanying statements of net position.

(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 agreement with the Plan 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, 2017 and 2016, the Plan incurred an expense of $10,468 and $13,379, respectively, for matching contributions. As of September 30, 2017 and 2016, retirement plan assets were $66,175 and $66,932, respectively. Management is of the opinion that the retirement plan assets do not represent an asset of the Plan, as such, balances are not recorded in the accompanying financial statements.

(9) Subsequent Event

Public Law 20-72, MiCare Health Insurance Plan Act of 1984, which amended title 52 of the Code of Federated States of Micronesia, to (1) realign the name of the Plan to "MiCare Health Insurance Plan", and (2) clarify the roles of the Administrator and expand the eligibility requirements, was enacted in February 2018.

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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
FSM National Government Employees' Health Insurance Plan:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the FSM National Government Employees' Health Insurance Plan (the Plan), which comprise the statement of net position as September 30, 2017, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2017-002 to be a significant deficiency.

Deloitte.

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*.

The Plan's Response to Findings

The Plan's response to the findings identified in our audit are described in the accompanying corrective action plan. The Plan's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Deloitte & Touche LLP

June 29, 2018

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding No.: 2017-001

Healthcare Information Management Systems

Criteria: Sufficient training should be in place in relation to Heathcare Information Management Systems implementation.

Condition: On September 2015, MiCare entered into a Healthcare Information Management Systems (HIMS) Agreement with the vendor at a total cost of $323,000. It appears that insufficient training took place in relation to the HIMS implementation which may have contributed to the system breakdown. As of September 30, 2017, measures are being taken to put the system in use; however, the system is sitting in Construction-in-Progress (CIP) account pending management determination and resolution of the matter.

Cause: Since we did not review the system, the cause of this matter is unknown.

Effect: The effect of the above condition is possible impairment of costs incurred in procuring the HIMS.

Recommendation: We recommend that management perform an impairment analysis of the system. Further, we recommend that prior to implementation, the Plan obtain sufficient training and implementation guidance.

Identification as a Repeat Finding: Finding 2016-001

Auditee Response and Corrective Action Plan: Management is already looking into recruiting a systems developer to establish and link in-house databases and proceed to health care providers thereafter. The systems developer will be one residing locally and therefore, customer service and training can be done instantly rather than confer with developers outside FSM as was done with ABS to no avail. The Plan will seek assistance from DoJ to recover the money used to procure the ABS.

Finding No.: 2017-002

Audit of Health Care Providers

Criteria: An effective system of internal control includes procedures to review and test medical claims.

Condition: The Plan currently does not have the ability to perform control procedures to test and verify medical claims. The Plan contracted an independent contractor to perform a claims audit of its on-island health care providers in FY2014. The Plan has not conducted similar audits of its off-island service providers.

Cause: The cause of the above condition is the lack of sufficient resources.

Effect: The effect of the above condition is a possible loss from ineligible and unnecessary medical costs.

Recommendation: We recommend that the Plan establish control procedures to test medical claims including conducting regular and timely audits of both on-island and off-island service providers.

Identification as a Repeat Finding: Finding 2016-002

Auditee Response and Corrective Action Plan: Management agrees with this finding. Management is putting together the means to enable a medical audit for foreign health providers. At the same time, with the help of the new doctor, the Plan will create a portfolio of all its affiliated and potential health providers to better assess the cost and benefits of each provider and refer members accordingly.