MICARE PLAN, INC.

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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

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Years Ended September 30, 2014 and 2013

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671) 646-3884
Fax: (671) 649-4932
www.deloitte.com

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, 2014 and 2013, 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, 2014 and 2013, 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 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2015, 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.

Deloitte + Touche LLP

June 22, 2015

The following discussion and analysis on the financial performance and activity of MiCare Plan (the Plan) is to provide an introduction and understanding on the basic financial statements of the Plan for the fiscal year ended September 30, 2014. 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 FSM National Government Employee's Health Insurance Plan (FSMNGEHIP), 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 MiCare Plan are organized as a proprietary fund. Proprietary funds are used by governmental units that are operated in a manner similar to private business enterprises. MiCare's budget is prepared by management with the concurrence of the board of directors.

Financial Highlights

- Total net position increased by $64,506 or 10% from $633,526 in 2013, compared to $697,582 in 2014.
- Total liabilities increased by $204,444 as compared to $1,376,213 in 2013.
- Total operating revenues decreased by $127,535 or 2% from $6,030,001 in 2013 to $5,902,466 in 2014.
- Total operating expenses increased by $83,388 or 1% from $5,862,133 in 2013 to $5,945,521 in 2014.
- Total non-operating revenues decreased by less than 1% from $108,058 in 2013 to $107,111 in 2014.

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, 2014, 2013 and 2012.

	2014	2013	2012
Assets:			
Current assets	$ 2,235,791	$ 1,950,089	$ 1,988,334
Noncurrent assets	42,448	59,650	22,343
Total assets	$ 2,278,239	$ 2,009,739	$ 2,010,677
Liabilities:			
Current liabilities	$ 1,580,657	$ 1,376,213	$ 1,653,077
Net position:			
Net investment in capital assets	42,448	59,650	22,343
Unrestricted	655,134	573,876	335,257
Total net position	697,582	633,526	357,600
Total liabilities and net position	$ 2,278,239	$ 2,009,739	$ 2,010,677

Current assets increased by $285,702 or 15% compared to prior year. Cash and cash equivalents increased by $34,511 or 29%. Investments increased by $106,076 or 8% compared to last year of $1,361,650. Premium receivables did not change much while accounts receivable increased from $29,170 to $45,258. Noncurrent assets comprised the Plan's property and equipment, net of accumulated depreciation. The decrease of noncurrent assets in 2014 was primarily due to the current year's depreciation expense of $19,646. The addition to assets was due to the purchase of equipment of $2,444. For additional information concerning capital assets, please see note 5 to the financial statements.

Current liabilities of $1,580,657 increased by $204,444, or 15%, from $1,376,213 in 2013. The cause of this significant change was mostly the result of more unpaid claims by one local service provider. Net position for 2014 increased by 10% to $697,582 compared to 2013 of $633,526.

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 MiCare Plan for the years ended September 30, 2014, 2013 and 2012;

	2014	2013	2012
Operating revenues	$ 5,902,466	$ 6,030,001	$ 5,470,437
Operating expenses	5,945,521	5,862,134	5,935,506
(Loss) income from operations	(43,055)	167,867	(465,069)
Non operating revenues	107,111	108,059	119,444
Increase (decrease) in net position	64,056	275,926	(345,625)
Net position, beginning of year	633,526	357,600	703,225
Net position, end of year	$ 697,582	$ 633,526	$ 357,600

In fiscal year 2014, net operating revenue collections were $5,902,466. The following table indicates collections from public and private sector enrollees for fiscal year 2014, 2013 and 2012.

	2014	2013	2012
Public Sector	$ 4,426,850	$ 4,616,812	$ 4,286,067
Private Sector	1,475,616	1,413,189	1,184,370
Total	$ 5,902,466	$ 6,030,001	$ 5,470,437

Premium contributions from public sector in 2014 decreased by $189,962 or 4% compared to last fiscal year. Private Sector contributions increased by $62,427, or 4%, from $1,413,189 in FY 2013 to $1,475,616 in FY 2014.

Among the public sector entities, FSM National Government and its agencies had the highest premium contribution to the Plan in 2014, from which the Plan collected $1,905,194 (43%); followed by Pohnpei State Government and its agencies $1,705,310 (39%); Kosrae $448,804 (10%); Yap $228,174 (5%) and Chuuk $139,368 (3%).

FSM National Government	$1,905,194
Pohnpei State Government	$1,705,310
Kosrae State Government	$ 448,804
Yap State Government	$ 228,174
Chuuk State Government	$ 139,368

For private sector contributions, private businesses in Pohnpei contributed $1,320,539 or 90% in fiscal year 2014 followed by Yap $119,430 (8%); Chuuk $18,347 (1%) and Kosrae $17,300 (1%).

Total operating expenses for fiscal year 2014 increased by $83,388 (1%) to $5,945,521 compared to $5,862,133 of last year. Medical claims and administrative expenses are the two major types of operating expenses of the Plan. Medical expenses of $5,359,221 in fiscal year 2014 increased by $52,509 compared to $5,306,712 of last year. The following table below indicates the medical expenses by type of claims for fiscal year 2014, 2013 and 2012.

Type of Claims	2014	2013	2012
Local State Hospitals	$ 577,228	$ 702,000	$ 752,762
Local Private Providers	1,987,168	1,971,152	1,703,481
Off-island Hospitals	2,529,124	2,365,932	2,633,758
Patients Airfare	265,526	264,928	339,950
Patients Stipend	175	2,700	610
Total Medical Claims	$ 5,359,221	$ 5,306,712	$ 5,430,561

In FY2014, there was a slight change in the payment of capitation to the local state Hospitals due to capitation not paid to Chuuk State Government because of non payment of new premium rates effect October 1, 2012.

The local private providers showed an increase of $16,016 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 an increase of $163,192 or 7% to $2,529,124 compared to the fiscal year 2013 of 2,365,932.

Patient airfare costs slightly increased in fiscal year 2014 in comparison to fiscal year 2013.

Net administrative expenses of $586,300 are slightly less than the approved budget of $587,996 for fiscal year 2014. Overall increase in administration expenses is about 6% compared to fiscal year 2013.

Management's Discussion and Analysis for the fiscal year ended September 30, 2013 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated June 3, 2014. That Discussion and Analysis explains the major factors impacting the 2013 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

Due to the findings and recommendations identified during the medical claims audits in FY2014, various changes are implemented in FY2015, one of which is to institute an automated medical claim billing system in all affiliated clinics. This new system will eliminate or reduce claims errors.

Based on the medical claim audit findings, the Board of Directors approved placing one of the affiliated private clinic under monthly capitation payment. This will significantly reduce fraudulent cases and the need to recoup some inappropriately paid claims.

The historical execution of a One-Stop-Service Capitation (OSS) Agreement with The Medical City Hospital will significantly reduce costs of professional fees, which is over $.5 million in FY2014, beginning in FY2016 when all the basic referrals will be sent directly to The Medical City (TMC) under the agreement. It was initially projected that the OSS Agreement could realize a saving of not less than $300,000 per fiscal year. The utilization under the Agreement is under review to determine the savings realized in other cost centers including administrative and medical costs in Manila.

The attempt to reduce the over $1.5 million in accounts payable is underway. A recruitment of one Account Payable personnel should be able to reduce end of the year AP to less than $100,000 in FY2015.

Most of the strategic objectives in the Second Year Strategic Plan call for improvement of the cash position of MiCare: (1) Perform actuarial survey every three years; (2) perform medical and pharmacy audits and litigate abusive and fraudulent cases; (3) incorporate chronic refills into the pharmacy fee structure; (4) delay referral benefits until after 6 months of enrollment; (5) maintain administration costs under 8% of projected revenue; (6) reduce account payable at end of each fiscal year to below $100,000; (7) and others.

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.

MICARE PLAN, INC.
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Statements of Net Position
September 30, 2014 and 2013

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	$ 152,981	$ 118,470
Investments	1,467,726	1,361,650
Premiums receivable	211,505	211,253
Accounts receivable, net	45,258	29,170
Deposits with service providers	358,321	229,546
Total current assets	2,235,791	1,950,089
Fixed assets, net	42,448	59,650
Total assets	$ 2,278,239	$ 2,009,739
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable - medical claims	$ 1,533,970	$ 1,322,504
Accounts payable - other	46,687	53,709
Total liabilities	1,580,657	1,376,213
Commitments and contingencies		
Net position:		
Net investment in capital assets	42,448	59,650
Unrestricted	655,134	573,876
Total net position	697,582	633,526
Total liabilities and net position	$ 2,278,239	$ 2,009,739

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Insurance premiums	$ 5,985,477	$ 6,028,565
Miscellaneous	5,160	1,436
	5,990,637	6,030,001
Less uncollectable accounts	(88,171)	-
Total operating revenues	5,902,466	6,030,001
Operating expenses:		
Medical claims	5,359,221	5,306,712
Personnel services	319,402	326,480
Contractual services	117,330	28,257
Travel	25,613	56,806
Depreciation	19,646	18,498
Rent	19,575	18,634
Utilities	17,506	15,185
Supplies	12,902	15,962
Communications	11,118	12,573
Repairs and maintenance	10,045	14,937
Printing	6,234	7,135
Insurance	1,956	1,803
Miscellaneous	24,973	39,151
Total operating expenses	5,945,521	5,862,133
(Loss) income from operations	(43,055)	167,868
Non-operating revenues:		
Contribution from FSM National Government	100,000	100,000
Net increase in the fair value of investments	6,076	6,759
Other revenues	1,035	1,299
Total non-operating revenues	107,111	108,058
Change in net position	64,056	275,926
Net position at beginning of year	633,526	357,600
Net position at end of year	$ 697,582	$ 633,526

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Premiums received	$ 5,886,125	$ 6,020,564
Medical claims and benefits paid	(5,147,755)	(5,527,663)
Cash paid to suppliers and employees	(702,451)	(596,766)
Net cash provided by (used in) operating activities	35,919	(103,865)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(2,444)	(55,805)
Cash flows from investing activities:		
Additions to investments	(100,000)	(100,000)
Net purchases, sales and maturities of investments	(10,120)	(14,598)
Interest and dividends received	11,156	15,897
Net cash used in investing activities	(98,964)	(98,701)
Cash flows from noncapital financing activities:		
Contribution from the FSM National Government	100,000	100,000
Net change in cash and cash equivalents	34,511	(158,371)
Cash and cash equivalents at beginning of year	118,470	276,841
Cash and cash equivalents at end of year	$ 152,981	$ 118,470
Reconciliation of (loss) income from operations to net cash provided by (used in) operating activities:		
Income from operations	$ (43,055)	$ 167,868
Adjustment to reconcile (loss) income from operations to net cash provided by (used in) operating activities:		
Depreciation	19,646	18,498
Bad debts	88,171	-
(Increase) decrease in assets:		
Premiums receivable	(252)	12,461
Accounts receivable	(104,260)	(21,898)
Deposits with service providers	(128,775)	(3,930)
Increase (decrease) in liabilities:		
Accounts payable - medical claims	211,466	(220,951)
Accounts payable - other	(7,022)	(55,913)
Net cash provided by (used in) operating activities	$ 35,919	$ (103,865)

See accompanying notes to financial statements.

(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.

(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. 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 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 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 2014, the Plan implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

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 this statement on the financial statements of the Plan.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement 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.

(3) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2014 and 2013, the carrying amount of the Plan's total cash and cash equivalents was $152,981 and $118,470, respectively, and the corresponding bank balance was $297,207 and $334,824, respectively, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014 and 2013, bank deposits in the amount of $265,975 and $260,104, 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, 2014 and 2013.

B. Investments:

As of September 30, 2014 and 2013, investments at fair value are as follows:

	2014	2013
Fixed income securities:		
Domestic fixed income	$ 1,407,056	$ 1,302,949
Other investments:		
Money market funds	60,670	58,701
	$ 1,467,726	$ 1,361,650

As of September 30, 2014, the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	Fair Value
U.S. Treasury obligations	AAA	$ 135,261	$ 467,569	$ 602,830
U.S. Government agencies obligations	AAA	125,188	410,743	535,931
Corporate bonds	Aaa	-	15,934	15,934
Corporate bonds	Aa	4,068	49,412	53,480
Corporate bonds	A	13,185	144,855	158,040
Corporate bonds	Baa	13,193	27,648	40,841
		$ 290,895	$ 1,116,161	$ 1,407,056

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

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	Fair Value
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
		$ 369,002	$ 933,947	$ 1,302,949

(3) Deposits and Investments, Continued

B. Investments, Continued:

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, 2014 and 2013.

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, 2014, the Plan's investments include fixed income securities of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, which represent 28% and 10%, respectively, of the Plan's total investments. 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.

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, 2014 and 2013 is as follows:

	2014	2013
Accounts receivable	$ 292,609	$ 191,492
Allowance for doubtful accounts	(247,351)	(162,322)
	$ 45,258	$ 29,170

(5) Fixed Assets

Capital asset activities for the years ended September 30, 2014 and 2013, are as follows:

	Balance October 1, 2013	Additions	Deletions	Balance September 30, 2014
Office furniture, fixtures and equipment	$ 123,805	$ 2,444	$ -	$ 126,249
Vehicles	67,657	-	-	67,657
	191,462	2,444	-	193,906
Less accumulated depreciation	(131,812)	(19,646)	-	(151,458)
	$ 59,650	$ (17,202)	$ -	$ 42,448

	Balance October 1, 2012	Additions	Deletions	Balance September 30, 2013
Office furniture, fixtures and equipment	$ 79,904	$ 43,901	$ -	$ 123,805
Vehicles	55,753	11,904	-	67,657
	135,657	55,805	-	191,462
Less accumulated depreciation	(113,314)	(18,498)	-	(131,812)
	$ 22,343	$ 37,307	$ -	$ 59,650

(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.

(6) Commitments and Contingencies, Continued

Lease Commitments

The Plan has five operating leases as of September 30, 2014, 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 September 30,	Total
2015	$ 24,000
2016	24,000
2017	24,000
	$ 72,000

(7) Contribution from the FSM National Government

During the years ended September 30, 2014 and 2013, 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, 2014 and 2013, the Plan incurred an expense of $9,324 and $8,787, respectively, for matching contributions. As of September 30, 2014 and 2013, retirement plan assets were $41,588 and $21,857, respectively. Management is of the opinion that the retirement plan assets do not represent an asset of the Plan.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671) 646-3884
Fax: (671) 649-4932
www.deloitte.com

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, 2014, 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 22, 2015.

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.

Deloitte & Touche LLP

June 22, 2015