

*Financial Statements,
Required Supplementary Information, and
Compliance and Internal Control*

MiCare Health Insurance Plan

*(A Component Unit of the Federated States of
Micronesia National Government)*

*Year ended September 30, 2022
with Report of Independent Auditors*



MiCare Health Insurance Plan
(A Component Unit of The Federated States of Micronesia National Government)

**Financial Statements, Required Supplementary Information, and Compliance and
Internal Control**

Year ended September 30, 2022

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Report of Independent Auditors

The Board of Directors
MiCare Health Insurance Plan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of MiCare Health Insurance Plan (the Plan), a component unit of the FSM National Government, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Plan as of September 30, 2022, and the changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 28, 2024, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Ernst + Young LLP

June 28, 2024

MiCare Health Insurance Plan
(A Component Unit of the Federated States of Micronesia National Government)

Management's Discussion and Analysis

Year ended September 30, 2022

The following discussion and analysis on the financial performance and activity of MiCare Health Insurance 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, 2022. 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

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.

In fiscal year 2018, Public Law No. 20-72 amended Section 401 to change FSM National Government Employees Health Insurance Plan to MiCare Health Insurance Plan.

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

MiCare Health Insurance Plan
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Management's Discussion and Analysis, continued

Financial Highlights

- Total net position at the end of FY2022 is \$5,650,392.
- Total liabilities in FY2022 increased by \$1,284,250 in comparison to 2021.
- Total net operating revenue in FY2022 is \$6,937,477.
- Total operating expenses increased by \$917,567.

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 can determine the assets available to continue the operations of the Plan. They also can 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.

Current assets increased by \$2,584,566 compared to the prior year. Cash and cash equivalents increased by \$1,965,738. The increase in cash equivalent resulted from the COVID-19 travel restrictions to the Philippines and decreasing off-island referrals. Also, there was a delay in the payment of on-island providers because of the loss of the claims reviewer in 2022.

Investment increased by \$586,572 compared to 2021. Account receivables for 2022 are \$143,116, including \$97,590 of premium receivables and \$45,526 of other receivables.

Noncurrent assets comprised the Plan's property and equipment, net of accumulated depreciation. Please see note 5 to the financial statements for additional information concerning capital assets.

Current liabilities in FY2022 increased. In 2022, members started traveling to Hawaii or Guam to seek medical care. Unlike the Philippines, the US territories were open for travelers from FSM but with vaccination requirements. Thus, members with the supplemental option were able to travel to Hawaii and Guam to seek medical care. It was in August 2022, that the Philippines was opened to foreign referrals. Also, in 2022, MiCare lost the employee who reviews hospital claims from the private hospital in Pohnpei resulting in a backlog of claims to be reviewed.

The net position for the year 2022 increased by \$1,544,985 leaving a total net position of \$5,650,392.

MiCare Health Insurance Plan
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Management's Discussion and Analysis, continued

The following table summarizes the financial condition of the Plan as September 30, 2022 and 2021.

Table 1: Summary of Net Position of MiCare Health Insurance Plan

	<u>2022</u>	<u>2021</u>
Assets:		
Current assets	\$7,102,862	\$4,518,296
Noncurrent assets	<u>581,723</u>	<u>337,054</u>
Total assets	<u>\$7,684,585</u>	<u>\$4,855,350</u>
Liabilities:		
Current liabilities	\$1,904,701	\$749,943
Noncurrent liabilities	<u>129,492</u>	<u>---</u>
Total liabilities	2,034,193	749,943
Net position		
Invested in capital	190,033	110,531
Unrestricted	<u>5,460,359</u>	<u>3,994,876</u>
Total net position	<u>5,650,392</u>	<u>4,105,407</u>
Total liabilities and Net position	<u>\$7,684,585</u>	<u>\$4,855,350</u>

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 position. The purpose of this statement is to present the revenues received by the Plan, both operating and non-operating, and expenses incurred by the Plan, operating and non-operating, and any revenues, expenses, gains and losses received or spent by the Plan.

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

In fiscal year 2022, the net operating revenue was \$6,937,477.

Of the total amount of health premium and extended pharmacy premium, of \$6,850,499 in fiscal year 2022, Pohnpei State had the highest premium contribution to the Plan, from which the Plan collected \$4,367,038 (63.75%); followed by National \$1,132,229 (16.53%); Kosrae State \$597,077 (8.72%); Yap State \$522,151 (7.62%), Chuuk State \$203,307 (2.97%) and Overseas \$28,697 (0.41%). Premium for each state represents premium received from state government, agencies, private business and individual accounts. Premium received for National Government represents all FSM National Government employees, and premiums received for Overseas represents those who resides outside of FSM.

MiCare Health Insurance Plan
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Management's Discussion and Analysis, continued

The extended pharmacy coverage is optional and is only for members who need more than 30 days' supply of medicine. Total collection for extended pharmacy premium was \$30,624. Pohnpei has the highest members under the extended pharmacy coverage followed by Yap, Kosrae and Overseas members.

Total operating expenses for fiscal year 2022 increased by \$917,567 in comparison to year 2021. Medical claims and administrative expenses are the two major types of operating expenses of the Plan.

The following table summarizes the financial operations of the Plan for the years ended September 30, 2022 and 2021.

Table 2: Summary of Financial Operations of MiCare Health Insurance Plan

	<u>2022</u>	<u>2021</u>
Operating revenues	\$6,937,477	\$6,985,827
Operating expenses	<u>5,138,590</u>	<u>4,221,023</u>
Net operating income	1,798,887	2,764,804
Non-operating (expense) revenues, net	(<u>253,902</u>)	<u>1,076,487</u>
Increase in net position	1,544,985	3,841,291
Net position at beginning of year	<u>4,105,407</u>	<u>264,116</u>
Net position at end of year	<u>\$5,650,392</u>	<u>\$4,105,407</u>

Table 3: Breakdown of medical and administrative expenses

Operating Expenses	<u>2022</u>	<u>Loss Ratio</u>
Medical Claims	\$4,579,960	66%
Administration	<u>558,630</u>	<u>8%</u>
	<u>\$5,138,590</u>	<u>74%</u>

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Management's Discussion and Analysis, continued

Medical expenses for 2022: the following table below indicates the medical expenses by type of claims for fiscal year 2022.

Table 4: Breakdown of cost associated to medical services/non-medical services:

	Offisland <u>Claims</u>	<u>Airfare</u>	Chronic <u>Medicine</u>	<u>Stipend</u>	<u>Capitation</u>	On-island <u>Claims</u>	Total Medical <u>Expenses</u>
Pohnpei	\$1,742,798	\$12,552	\$145,027	\$65,592	\$456,000	\$1,591,947	\$4,013,916
Kosrae	2,564	3,615	---	17,279	120,000	---	143,458
Chuuk	25,147	---	---	840	72,000	---	97,987
Yap	307,681	7,716	---	1,470	---	---	316,867
Overseas	<u>7,062</u>	<u>---</u>	<u>670</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>7,732</u>
	<u>\$2,085,252</u>	<u>\$23,883</u>	<u>\$145,697</u>	<u>\$85,181</u>	<u>\$648,000</u>	<u>\$1,591,947</u>	<u>\$4,579,960</u>

Net administrative expenses for 2022 was \$558,630.

Management's Discussion and Analysis for the fiscal year ended September 30, 2021 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated March 24, 2023. That Discussion and Analysis explains the major factors impacting the 2020 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

The long-term viability of MiCare Health Insurance will always be at risk. Border lockdown and travel restrictions played a big role in MiCare's improved financial health from 2020 to 2021 because basic referrals to the Philippines were put on hold. In August 2022, the lockdown or travel restrictions were lifted and basic referrals resumed. In 2023, with the increase in the cost of airfare and an increase in medical cost, MiCare is looking at \$6.9 mil in medical and non-medical expenses.

Our general mode of operation continues to be cautious to protect the safety of the members' funds, to ensure Plan sustainability and continue to implement improvements outlined in the 5-year Strategic Plan wherever possible.

For any questions or clarification, please contact MiCare office by telephone (691) 320-2549 or email info@micareplan.fm.

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

MiCare Health Insurance Plan
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Statement of Net Position

September 30, 2022

Assets

Current assets:

Cash and cash equivalents	\$4,547,386
Investments	2,412,360
Premiums receivables	97,590
Accounts receivables, net	<u>45,526</u>
Total current assets	7,102,862

Capital assets:

Non-depreciable capital assets, net of impairment	106,159
Capital assets, net of accumulated depreciation	<u>83,874</u>
	190,033

Deposits with service providers	234,807
Lease asset	<u>156,883</u>

Total assets	<u>\$7,684,585</u>
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Liabilities and Net Position

Current liabilities:

Accounts payable – medical claims	\$1,730,631
Accounts payable – other	146,679
Current portion of lease liability	<u>27,391</u>
Total current liabilities	<u>1,904,701</u>

Noncurrent liabilities:

Lease liability	<u>129,492</u>
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Total liabilities	<u>2,034,193</u>
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Commitments and contingencies

Net position:

Net investment in capital assets	190,033
Unrestricted	<u>5,460,359</u>
Total net position	<u>5,650,392</u>
Total liabilities and net position	<u>\$7,684,585</u>

See accompanying notes.

MiCare Health Insurance Plan
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Statement of Revenue, Expenses, and Changes in Net Position

Year Ended September 30, 2022

Operating revenues:	
Insurance premiums	\$6,850,499
Miscellaneous	<u>28,371</u>
	6,878,870
Bad debt recoveries	<u>58,607</u>
Net operating revenues	<u>6,937,477</u>
Operating expenses:	
Medical claims	4,579,960
Personnel services	320,097
Contractual services	57,133
Depreciation	39,969
Travel	36,723
Rent	36,026
Communication	15,738
Utilities	14,238
Supplies	11,992
Miscellaneous	<u>26,714</u>
Net operating expenses	<u>5,138,590</u>
Earnings from operations	<u>1,798,887</u>
Net operating (expense) revenues:	
Net decrease in the fair value of investments	(259,150)
Other revenues	<u>5,248</u>
Net non-operating expense	<u>(253,902)</u>
Change in net position	1,544,985
Net position at beginning of year	<u>4,105,407</u>
Net position at end of year	<u>\$5,650,392</u>

See accompanying notes.

MiCare Health Insurance Plan
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Statement of Cash Flows

Year Ended September 30, 2022

Cash flows from operating activities:	
Premiums received	\$6,905,221
Medical claims and benefits paid	(3,522,669)
Cash paid to suppliers and employees	(456,869)
Net cash provided by operating activities	<u>2,925,683</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(119,471)
Cash flows from investing activities:	
Net purchases, sales and maturities of investments	(845,722)
Interest and dividends received	<u>5,248</u>
Net cash used in investing activities	(840,474)
Net change in cash and cash equivalents	1,965,738
Cash and cash equivalents at beginning of year	<u>2,581,648</u>
Cash and cash equivalents at end of year	<u>\$4,547,386</u>
Reconciliation of earnings from operations to net cash provided by operating activities:	
Earnings from operations	\$1,798,887
Adjustment to reconcile earnings from operations to net cash provided by operating activities:	
Depreciation	39,969
(Increase) decrease in assets:	
Premium receivable	13,270
Accounts receivable	(45,526)
Deposits with service providers	(8,284)
Increase in liabilities:	
Accounts payable – medical claims	1,057,291
Accounts payable – other	<u>70,076</u>
Net cash provided by operating activities	<u>\$2,925,683</u>
Supplemental information and noncash capital activities	
Lease asset	\$ 184,318
Lease liability	(184,318)

See accompanying notes.

MiCare Health Insurance Plan
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements

Year Ended September 30, 2022

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. Public Law 20-72, MiCare Health Insurance Plan Act of 1984, which amended title 52 of the Code of FSM to realign the name of the Plan to "MiCare Health Insurance Plan". On March 21, 2019, the FSM Office of the Registrar of the Plans approved the adopted changes to the MiCare regulations which become effective April 1, 2019. 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 represent each of the four states of the FSM, one represents the FSM National Government, and one represents 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 Governmental Accounting Standards Board (GASB) establishes 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, 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, net of related debts.
- 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.

MiCare Health Insurance Plan
(A Component Unit of the Federated States of Micronesia National Government)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Accounting Estimates

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

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net 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 non-operating 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 non-operating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as non-operating expenses.

Revenue Recognition

Health care premiums from enrolled members of the Plan are reported as revenue in the period such becomes due.

Cash and Cash Equivalents

For the purposes of the statements of net position and of cash flows, cash and cash equivalents are defined as cash in bank checking and savings accounts and money market fund.

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.

MiCare Health Insurance Plan
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Premiums and Accounts Receivable

Premiums receivable are primarily due from the FSM National Government and its four State Governments. 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. As of September 30, 2022, the allowance for uncollectible accounts related to premium receivable was \$0.

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 statement of net position.

Capital Assets

Capital 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.

MiCare Health Insurance Plan
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

Recently Adopted Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 did not have an effect on the beginning net position. The Plan recorded lease asset of \$184,318 and a lease liability of \$184,318 at October 1, 2021.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The adoption of GASB Statement No. 89 did not result in a material effect on the accompanying financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 did not have an effect on the accompanying financial statements.

MiCare Health Insurance Plan
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address the accounting and financial reporting effects that result from the replacement of IBORs with other reference rates in order to preserve the reliability, consistency, and comparability of reported information. The adoption of GASB Statement No. 93 did not have an effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit debt obligations*. The primary objectives of this statement are to provide a single method reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. GASB Statement No. 99 will be effective for fiscal year ending September 30, 2023.

In June 2022, GASB issues Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal years ending September 30, 2025.

The Plan is currently evaluating the effects the above upcoming accounting pronouncements might have on its 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, 2022, the carrying amount of the Plan's total cash and cash equivalents was \$4,547,386 and the corresponding bank balance was \$5,119,328, which is primarily maintained in financial institutions subject to Federal Deposit Insurance the Plan (FDIC) insurance. As of September 30, 2022, bank deposits in the amount of \$250,000 for both years 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, 2022.

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Notes to Financial Statements, continued

3. Deposits and Investments, continued

B. Investments:

As of September 30, 2022, investments are as follows:

Fixed income securities:

Domestic fixed income \$2,412,360

As of September 30, 2022 the Plan's fixed income securities had the following maturities:

	<u>Moody's Credit Rating</u>	<u>Less than 1 Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>	<u>More than 10 Years</u>	<u>Fair Value</u>
U.S. Treasury obligations	AAA	\$118,003	\$1,497,556	\$213,725	\$ ---	\$1,829,284
U.S. Government agencies obligations	AA	---	213,952	---	36,989	250,941
Corporate bonds	Aaa	---	---	3,196	---	3,196
Corporate bonds	Aa	---	9,050	16,768	---	25,818
Corporate bonds	A	9,945	46,627	93,103	3,658	153,333
Corporate bonds	Baa	<u>7,978</u>	<u>103,743</u>	<u>38,067</u>	<u>---</u>	<u>149,788</u>
		<u>\$135,926</u>	<u>\$1,870,928</u>	<u>\$364,859</u>	<u>\$40,647</u>	<u>\$2,412,360</u>

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Plan will not be able to recover the value of the 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, 2022.

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, 2022, no investments in any one issuer (other than the U.S. Treasury) represented five percent or more of total investments for the Plan.

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.

MiCare Health Insurance Plan
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Notes to Financial Statements, continued

3. Deposits and Investments, continued

B. Investments, continued:

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, 2022:

	<u>Fair Value Measurements Using</u>			
	September 30, 2022	Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income securities	\$2,412,360	---	\$2,412,360	---

4. Accounts Receivable

A summary of accounts receivable at September 30, 2022 is as follows:

Accounts receivable	\$899,072
Allowance for doubtful accounts	<u>(853,546)</u>
	<u>\$ 45,526</u>

MiCare Health Insurance Plan
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Notes to Financial Statements, continued

5. Capital Assets

Capital asset activities for the year ended September 30, 2022, are as follows:

	Balance October 1, <u>2021</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2022</u>
Depreciable assets:				
Office furniture, fixtures and equipment	\$ 96,025	\$68,067	\$ ---	\$164,092
Vehicles	<u>100,088</u>	<u>7,830</u>	<u>---</u>	<u>107,918</u>
	196,113	75,897	---	272,010
Less accumulated depreciation	<u>(148,167)</u>	<u>(39,969)</u>	<u>---</u>	<u>(188,136)</u>
	<u>47,946</u>	<u>35,928</u>	<u>---</u>	<u>83,874</u>
Non-depreciable assets:				
Construction in progress	385,585	43,574	---	429,159
Less allowance for impairment loss	<u>(323,000)</u>	<u>---</u>	<u>---</u>	<u>(323,000)</u>
	<u>62,585</u>	<u>43,574</u>	<u>---</u>	<u>106,159</u>
Capital assets, net	<u>\$110,531</u>	<u>\$79,502</u>	<u>\$ ---</u>	<u>\$190,033</u>

The construction in progress includes \$323,000 for costs incurred in 2017 for the implementation of an automated billing system for which the initial project implementation failed. A valuation allowance has been provided in full. The Plan is exploring legal options to seek retributions from the vendor.

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.

MiCare Health Insurance Plan
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Notes to Financial Statements, continued

7. 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 year ended September 30, 2022, the Plan incurred an expense of \$2,984 for matching contributions. As of September 30, 2022, retirement plan assets were \$107,718. Although the retirement plan does not accumulate assets in a trust where the retirement plan assets are legally protected from the creditors of the Plan and the plan administrator, the Plan has concluded that the activities of the retirement plan are not fiduciary activities of the Plan as the participants have the right to direct the exchange and the right to direct the employment of the retirement plan assets.

8. Leases

The Plan has a lease agreement with Moylan's Insurance Underwriters (FSM), expiring February 28, 2023 for an office suite containing an area of 3,200 square feet. The lease agreement contains an option to extend the term of the lease for an additional period of five years, on the same terms, covenants, and conditions of the original lease with rent escalations, expiring February 28, 2028. As of September 30, 2022 lease asset is as follows:

<u>Lease Description</u>	<u>Classification</u>	<u>Gross Balance</u>	<u>Accumulated Amortization</u>	<u>Net Balance</u>
Office lease	Building	<u>\$184,318</u>	<u>\$27,435</u>	<u>\$156,883</u>

The future lease payments for this transaction are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 27,391	\$ 4,680	\$ 32,071
2024	28,292	3,779	32,071
2025	29,222	2,849	32,071
2026	30,184	1,887	32,071
2027	31,176	895	32,071
2028	<u>10,618</u>	<u>72</u>	<u>10,690</u>
	<u>\$156,883</u>	<u>\$14,162</u>	<u>\$171,045</u>

Report of Independent Auditors 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 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 MiCare Health Insurance Plan (the Plan), which comprise the statement of net position as September 30, 2022, 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 28, 2024.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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 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.

Ernst + Young LLP

June 28, 2024