MICARE PLAN, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

MICARE PLAN, INC.

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Year Ended September 30, 2007

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Chairman
Board of Directors
MiCare Plan, Inc.:

We have audited the accompanying statements of net deficiency of the MiCare Plan, Inc. (the "Plan"), a component unit of the Federated States of Micronesia National Government, as of September 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net deficiency and of cash flows for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the MiCare Plan, Inc. as of September 30, 2007 and 2006, and the changes in its net deficiency and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the MiCare Plan, Inc.'s management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2008, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

March 3, 2008

MICARE PLAN, INC.

Management's Discussion and Analysis
Year Ending September 30, 2007

The following discussion and analysis of the financial performance and activity of MiCare Plan is to provide an introduction and understanding of the basic financial statements of the Plan for the year ended September 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto, which follow this section.

MiCare Plan was established by the Federated States of Micronesia Public Law 3-82 enacted 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 in the Plan is optional for employees and employers both for public and private entities in the Federated States of Micronesia. Premiums are paid on a fixed bi-weekly rate for the three plan options.

The Plan is under the governance of the Board of Directors consisting of four (4) member representatives from each state government, one (1) from the National Government and one (1) member representing 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.

Fiscal year 2007 was a very good year for the Plan in terms of profitability. The year closed with a net income of $771,793, a very encouraging and remarkable result that happened after many years of operating deficits since 2000. The increase in premium contributions, a decrease in medical costs for on-island and off-island care and the $300,000 appropriation received from the FSM Congress contributed to the significant change and impacted the financial operation of the Plan.

Achieving a surplus in operations remains the main objective of the Plan to reduce accumulated deficits and to make the program financially stable and sustainable. The Plan was successful in achieving this objective and this resulted in decreasing the retained deficit by almost 50% from $1,554,304 in 2006 to $782,511 in 2007.

The following table summarizes the financial condition and operations of MiCare for FY 2007 and FY 2006.

	2007	2006	2005
Assets			
Current assets	$ 1,520,678	$ 1,563,028	$ 1,642,366
Noncurrent assets	34,353	10,004	15,427
	$ 1,555,031	$ 1,573,032	$ 1,657,793
Liabilities and Net Assets			
Current liabilities	$ 2,337,542	$ 3,127,336	$ 3,098,333
Net assets	(782,511)	(1,554,304)	(1,440,540)
	$ 1,555,031	$ 1,573,032	$ 1,657,793
Revenues, Expenses and Changes in Net Assets			
Operating revenues	$ 5,687,809	$ 5,538,932	$ 5,492,969
Operating expenses	5,259,806	5,708,232	6,073,117
Operating income (loss)	428,003	(169,300)	(580,148)
Interest income and others	43,790	55,536	22,887
Contribution	300,000	-	-
Change in net assets	$ 771,793	$ (113,764)	$ (557,261)

Financial Highlights

- Operating revenues in fiscal year 2007 increased by $148,877 or almost 3% from the previous fiscal year.
- During fiscal year 2007, the Plan's total operating expenses were $5.2 million, which decreased by 8% compared with the prior year of $5.7 million.
- In fiscal year 2007, medical claims decreased by 9% to $4,833,920 as compared to $5,315,309 in fiscal year 2006.
- For fiscal year 2007, the Plan recorded an increase of total net assets of $771,793 compared to a $113,764 decrease in fiscal year 2006.

Operating Revenue

Premium collections are the major source of revenue for the Plan's operation. In fiscal year 2007, premium collections resulted in an increase of $146,906 to $5,676,543 compared to the previous fiscal year of $5,529,637. The increase of almost 3% in collections was due to 10% premium increase applied to all options that took effect March 1, 2007.

Total premium contributions from the public sector was $4,590,976 in fiscal year 2007, which represents 81% of total operating revenues from premium collections while total contributions from the private sector were $1,085,567 or (19%).

Of total premiums collected of $4,590,976 from five participating government accounts, FSM National Government and agencies lead in terms of premium contributions, from which the Plan collected $1,817,031 followed by Pohnpei State $1,669,133, Kosrae State $587,609 Chuuk State $320,155 and Yap State $197,048.

For private sector contributions, participating private businesses in Pohnpei contributed $912,250 in fiscal year 2007 followed by Yap $81,955, Chuuk $68,847 and Kosrae $22,515.

Operating Expense

Medical expenses and administrative expenses are the two types of operating expenses of the Plan. Operating expenses for fiscal year 2007 of $5,259,806 were 8% less than the $5,708,232 incurred in fiscal year 2006.

As compared to fiscal year 2006, total medical expenses decreased by $481,389 while general and administrative expenses increased by $32,963 with an overall net decrease of expenses for the year of $448,426. The decrease of 8% was largely due to a decrease in on-island and off-island medical expenses and patients' airfare costs. The following table below indicates medical expenses by type of claims.

Type of Claims	2007	2006	2005
Local State Hospitals	$ 483,582	$ 487,316	$ 390,248
Local Private Providers	1,571,598	1,915,921	1,703,611
Off-island Hospitals	2,464,380	2,509,568	2,970,896
Patients Airfare	309,820	395,284	585,805
Patients Stipend	4,540	7,220	12,210
Total Medical Claims	$ 4,833,920	$ 5,315,309	$ 5,662,770

Medical claims from local state hospitals have not significantly changed in fiscal year 2007. However, medical claims from local private providers dramatically changed as 2007 figures resulted in a decrease of $344,323 or 18%. The tremendous drop-off of utilization expenses from private providers on-island was primarily due to implementation of the new Relative Unit Value (RUV) fee schedules for out-patient and in-patient charges that took effect March 1, 2007. The new fee schedules are designed to closely monitor the charges of the private providers and also are used as a control mechanism to reduce unnecessary costs being charged to MiCare insured members.

Off-island medical costs in 2007 were also reduced from $2,509,568 in 2006 to $2,464,380 in 2007 resulting in a decrease in cost of $45,188 or about 2%. The decrease in off-island cost for this year was not remarkable compared to last year figure. One significant factor that contributed to a reduction in utilization off-island cost was a decrease in the number of patients sent off-island, strict implementation of referral regulations and effective management of off-island referral cases. Although the Plan has done well in reducing the cost of off-island referrals, the meager decrease is attributed largely to patients whose cases were considered as dreaded diseases that require long inpatient stays and the uncontrollable weakening value of the dollar to the peso, which caused further operational losses.

Another major expense that continues to decline over the past two years is the cost of airfare tickets. In fiscal year 2007, the Plan paid a total of $309,820 compared to the last year figure of $395,284. This resulted in a substantial savings of $85,464 or 21%. The remarkable change in cost was due to a decrease of basic referrals of around 18% in 2007 and this was realized because of strict screening of referral patients through proper coordination, investigation and dialogue with their attending physicians to ensure that referrals are recommended based on clinical justification and necessity. The Plan was also successful in negotiating a medical referral ticket with Continental, which also contributed to reducing the cost of airfare.

Administrative Expenses and Fixed Asset Purchases

Net administrative expenses of $425,886 and fixed assets of $35,723 were paid during fiscal year 2007. This was 9% less than the approved budget of $507,969 in 2007 and 23% less than the level of administrative cost allowed by law. The biggest administrative expenses were salaries and benefits, contractual services, communication and travel in the amount of $270,881, $26,145, $25,422 and $18,581 respectively. In line with the accumulated deficits the Plan experienced from previous years, management was strictly monitoring expenditures to only necessary and important expenses. This cost containment program will continue in effect to monitor and restrain the increasing cost of health care on-island and off-island.

Fixed asset additions during the years ended September 30, 2007 and 2006 are not significant. Please see Note 4 to the financial statements for additional information concerning fixed assets.

Escrow Accounts & Investment

There are three escrow accounts that the Plan currently maintains with different off-island providers. In fiscal year 2007, the balance of these escrow accounts at Straub Clinic & Hospital, Honolulu Medical Group and St. Luke's Medical Center were $102,558, $10,016 and $108,913 respectively. These accounts were established as one of the requirements when the Plan entered into a bilateral relationship with the providers. The deposits were placed in an interest bearing account that continued to earn interest for the benefit of the program.

In fiscal year 2007, total market of the investment at Bank of Hawaii was $878,450 compared to last year of $833,637. The Plan experienced a net increase in the fair value of investments and interest of around 5% or $44,813. The increase of investment income was due to spreading out the investment portfolio into different securities such as investment in US treasury notes and corporate bonds with different maturity dates and higher interest rates. One of the primary goals of the Plan is to liquidate its long overdue accounts and to be more current when it comes to its financial obligations with the contracted healthcare providers. During 2007, there was no attempt made to redeem the investment. Instead, the Plan concentrated on finding ways to reduce utilization costs, increase collections and to request funding from the FSM Congress. All of these were successfully achieved in fiscal year 2007 bringing down the Plan's liabilities to $2,337,542 compared to the last year total of $3,127,336, a reduction of $789,794 or 25%.

Future Plans

Year 2007 results showed a positive impact on the Plan's operations. Overall the Plan had done well in most areas of operations; however we should not become complacent. The main focus and concern of the Plan now is to wipe out the remaining deficit and restore a capital reserve of the Plan to ensure the sustainability and viability of the program. Once the Plan succeeded this, benefits offered can be reviewed and revised to uphold the Plan's commitment to providing cost-effective and comprehensive healthcare services to members. It takes a lot of joint efforts to make this possible considering the many challenges that lie ahead. To achieve this goal, the Plan will continue to seek ways to have better solutions and alternatives in addressing the remaining deficits which includes, strict implementations on referrals policy and procedures, a better control policy on claims review and adjudication, aggressive collections of premium contributions, implementation of co-payment for every visit at the private clinics, continue to promote member's awareness on their health care benefits, work with Department of Health Services in promoting healthy lifestyle of the members, improve public relations to government officials to seek additional funding, and continue to implement cost containment programs to closely monitor and control operational costs to ensure expenses are effectively managed within available resources.

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated May 23, 2007. That Discussion and Analysis explains the major factors impacting the 2005 financial statements and can be obtained via the Office of the Public Auditor's website at www.fsmpublicauditor.fm.

MICARE PLAN, INC.

Statements of Net Deficiency
September 30, 2007 and 2006

ASSETS	2007	2006
Current assets:		
Cash and cash equivalents	$ 110,781	$ 135,234
Investments	878,450	833,637
Premiums receivable	268,892	280,730
Accounts receivable, net	41,069	53,357
Prepaid expenses	221,486	260,070
Total current assets	1,520,678	1,563,028
Noncurrent assets:		
Fixed assets, net	34,353	10,004
Total assets	$ 1,555,031	$ 1,573,032
LIABILITIES AND NET DEFICIENCY		
Current liabilities:		
Accounts payable	$ 2,337,542	$ 3,127,336
Total liabilities	2,337,542	3,127,336
Commitments and contingencies		
Net deficiency:		
Invested in capital assets	34,353	10,004
Unrestricted	(816,864)	(1,564,308)
Total net deficiency	(782,511)	(1,554,304)
Total liabilities and net deficiency	$ 1,555,031	$ 1,573,032

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Revenues, Expenses, and Changes in Net Deficiency
Years Ended September 30, 2007 and 2006

	2007	2006
Operating revenues:		
Insurance premiums	$ 5,676,543	$ 5,529,637
Miscellaneous	11,266	9,295
Total operating revenues	5,687,809	5,538,932
Operating expenses:		
Medical claims	4,833,920	5,315,309
Personnel services	270,881	237,925
Contractual services	26,145	10,288
Communication	25,422	23,514
Travel	18,581	48,604
Rent	18,459	17,488
Supplies	15,045	14,322
Depreciation	11,374	10,458
Utilities	9,837	8,881
Printing	6,088	4,662
Repairs and maintenance	5,538	4,219
Insurance	624	510
Miscellaneous	17,892	12,052
Total operating expenses	5,259,806	5,708,232
Earnings (loss) from operations	428,003	(169,300)
Non-operating revenues:		
Contribution from FSM National Government	300,000	-
Net increase in the fair value of investments	43,790	55,536
Change in net assets	771,793	(113,764)
Net deficiency at beginning of year	(1,554,304)	(1,440,540)
Net deficiency at end of year	$ (782,511)	$ (1,554,304)

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	$ 2,007	2006
Cash flows from operating activities:		
Premiums received	$ 5,688,382	$ 5,398,643
Medical claims and benefits paid	(5,640,191)	(5,092,459)
Cash paid to suppliers and employees	(347,164)	(604,888)
Other cash received	11,266	9,295
Net cash used for operating activities	(287,707)	(289,409)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(35,723)	(5,035)
Net cash used for capital and related financing activities	(35,723)	(5,035)
Cash flows from investing activities:		
Net change in investments	(44,813)	325,285
Investment income	43,790	55,536
Net cash (used for) provided by investing activities	(1,023)	380,821
Cash flows from noncapital financing activities:		
Contribution from the FSM National Government	300,000	-
Net change in cash and cash equivalents	(24,453)	86,377
Cash and cash equivalents at beginning of year	135,234	48,857
Cash and cash equivalents at end of year	$ 110,781	$ 135,234
Reconciliation of earnings (loss) from operations to net cash used for operating activities:		
Earnings (loss) from operations	$ 428,003	$ (169,300)
Adjustment to reconcile earnings (loss) from operations to net cash used for operating activities:		
Depreciation	11,374	10,458
Bad debts	-	12,396
(Increase) decrease in assets:		
Premiums receivable	11,838	(143,390)
Accounts receivable	12,288	(31,808)
Prepaid expenses	38,584	3,232
(Decrease) increase in liabilities:		
Accounts payable	(789,794)	29,003
Net cash used for operating activities	$ (287,707)	$ (289,409)

See accompanying notes to financial statements.

(1) Nature of Operations and Summary of Significant Accounting Policies

Reporting Entity

The MiCare Plan (the Plan) was created in 2003 by Public Law 12-77 of the Twelfth Congress of the Federated States of Micronesia. The MiCare Plan, Inc. began its operations in 1984. The purpose of the MiCare 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 is a discretely presented component unit of the FSM National Government. The financial statements in this report do not represent the financial position, results of operations or cash flows of the FSM National Government as a whole. The financial statements of the Plan are not obligations of the FSM National Government unless specifically authorized by the FSM National Government. To date, no such authorizations have been made. Until October 1, 2004, the Plan was accounted for as a proprietary fund type of the FSM National Government, which created a Board of Directors comprised of seven members appointed by the President, with the consent of Congress, to administer the Plan's affairs. The Board became responsible for the Plan's administration, effective October 1, 2004.

The accounting policies of the Plan conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Plan has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The Plan has adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34) as amended by GASB Statement No. 37, "Basic Financial Statements – Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Disclosures" and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- Invested in capital assets, net of related debt:

  Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

(1) Nature of Operations and Summary of Significant Accounting Policies, Continued

Reporting Entity, Continued

- Restricted:

  - Nonexpendable – Net assets subject to externally imposed stipulations that require the Plan to maintain them permanently. For the year ended September 30, 2007 and 2006, the Plan does not have nonexpendable net assets.

  - Expendable – Net assets whose use by the Plan is subject to externally imposed stipulations that can be fulfilled by actions of the Plan pursuant to those stipulations or that expire by the passage of time.

- Unrestricted:

  Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

Revenue Recognition

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

Premiums Receivable

Premiums receivable are primarily due from the FSM National Government.

The Plan establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

(1) Nature of Operations and Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

For the purposes of the statements of net deficiency and of cash flows, cash and cash equivalents are defined as cash in bank checking and savings accounts, and commercial paper with original maturities of three months or less from the date of acquisition.

Investments

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

Prepayments

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying statements of net deficiency.

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.

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

(1) Nature of Operations and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of the Plan.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

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 disclosures 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) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

(2) Deposits and Investments, Continued

A. Deposits:

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1	Deposits that are federally insured or collateralized with securities held by the Plan or its agent in the Plan's name;
Category 2	Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Plan's name; or
Category 3	Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Plan's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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, 2007 and 2006, the carrying amount of the Plan's total cash and cash equivalents was \$110,781 and \$135,234 and the corresponding bank balance was \$338,683 and \$403,242, respectively, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits in the amount of \$109,668 and \$120,935, 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, 2007 and 2006.

B. Investments:

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1	Investments that are insured or registered, or securities held by the Plan or its agent in the Plan's name;
Category 2	Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Plan's name; or
Category 3	Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Plan's name.

(2) Deposits and Investments, Continued

B. Investments, Continued:

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of September 30, 2007 and 2006, investments at fair value are as follows:

	2007	2006
Fixed income securities:		
Domestic fixed income	$ 847,659	$ 815,838
Other investments:		
Money market funds	30,791	17,799
	$ 878,450	$ 833,637

As of September 30, 2007, the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Greater Than 10 Years	Fair Value
U.S. Treasury obligations	Aaa	$ 234,981	$ 147,143	$ -	$ -	$ 382,124
U.S. Government agencies obligations	Aaa	205,075	115,031	20,394	-	340,500
Corporate bonds	Aaa	-	10,098	-	-	10,098
Corporate bonds	Aa1	-	10,265	-	-	10,265
Corporate bonds	Aa2	-	10,048	-	-	10.048
Corporate bonds	A1	-	25,148	-	-	25,148
Corporate bonds	A2	-	24,775	-	-	24,775
Corporate bonds	Baa1	-	29,693	-	-	29,693
Corporate bonds	Baa2	-	-	15,008	-	15,008
		$ 440,056	$ 372,201	$ 35,402	$ -	$ 847,659

As of September 30, 2006, the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Greater Than 10 Years	Fair Value
U.S. Treasury obligations	Aaa	$ 247,793	$ 357,809	$ -	$ -	$ 605,602
U.S. Government agencies obligations	Aaa	-	124,726	-	-	124,726
Corporate bonds	Aaa	-	5,044	-	-	5,044
Corporate bonds	Aa1	-	25,178	-	-	12,178
Corporate bonds	Aa3	-	30,057	-	-	30,057
Corporate bonds	A1	-	20,138	-	-	20,138
Corporate bonds	A2	-	5,093	-	-	5,093
		$ 247,793	$ 568,045	$ -	$ -	$ 815,838

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

(2) Deposits and Investments, Continued

B. Investments, Continued:

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Plan will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Plan's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the Plan's name by the Plan's custodial financial institutions at September 30, 2007 and 2006.

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, 2007 the Plan's investment in U.S. Treasury obligations and agency obligations of Federal Home Loan Bank Bonds constituted 44% and 39%, respectively, of its total investments. As of September 30, 2006, the Plan's investment in U.S. Treasury obligations and agency obligations of Federal Home Loan Bank Bonds constituted 73% and 15%, respectively, of its 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.

(3) Accounts Receivable

A summary of accounts receivable at September 30, 2007 and 2006 are as follows:

	2007	2006
Accounts receivable	$ 117,632	$ 133,371
Allowance for doubtful accounts	(76,563)	(80,014)
	$ 41,069	$ 53,357

(4) Fixed Assets

A summary of fixed assets as of September 30, 2007, is as follows:

	Balance October 1, 2006	Additions	Deletions	Balance September 30, 2007
Office furniture, fixtures and equipment	$ 54,905	$ 28,905	$ -	$ 83,810
Vehicles	64,438	6,808	-	71,256
	119,343	35,723	-	155,066
Less accumulated depreciation	(109,339)	(11,374)	-	(120,713)
Net fixed assets	$ 10,004	$ 24,349	$ -	$ 34,353

(4) Fixed Assets, Continued:

A summary of fixed assets as of September 30, 2006, is as follows:

	Balance October 1, 2005	Additions	Deletions	Balance September 30, 2006
Office furniture, fixtures and equipment	$ 49,870	$ 5,035	$ -	$ 54,905
Vehicles	64,438	-	-	64,438
	114,308	5,035	-	119,343
Less accumulated depreciation	(98,881)	(10,458)		(109,339)
Net fixed assets	$ 15,427	$ (5,423)	$ -	$ 10,004

(5) Related Party Transactions

For the years September 30, 2007 and 2006, the Plan recorded expenses of $283,973 and $266,069, respectively, related to claims by Pohnpei State Hospital and expenses of $1,013,938, related to claims by Genesis Island Family Clinic and Hospital at September 30, 2006. Management of Pohnpei State Hospital is on the Plan's Board of Directors for the years September 30, 2007 and 2006 and Genesis Island Family Clinic and Hospital's management was represented on the Plan's Board of Directors as of September 30, 2006. These medical claims are made under similar terms and conditions as exist with other health care providers.

(6) Commitments and Contingencies

Litigation

The Plan is a party to various legal proceedings, the ultimate impact of which is not currently predictable. Therefore, no liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome of these proceedings.

Self Insurance

The Plan carries vehicle insurance to cover its potential risks. The Plan is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

Lease Commitments

The Plan has three operating leases as of September 30, 2007. One is a residential real estate lease for a contract employee and two represent leases for the main office in Pohnpei and a liaison office in Manila (one with lease term of one year, one for 2 years and one for 10 years). All leases have an option allowing the Plan to renew the lease upon expiration of the current term. It is likely that these options will be utilized by the Plan and the leases renewed. The approximate future minimum annual lease payments payable by the Plan are as follows:

(6) Commitments and Contingencies, Continued

Lease Commitments, Continued:

Fiscal year ending September 30,	Total
2008	$ 22,879
2009	22,879
2010	22,879
2011	22,879
2012	22,879
2013 – 2017	114,394
2018 – 2022	114,394
2023 – 2027	114,394
2028 – 2032	114,394
	$ 571,971

(7) Contribution from the FSM National Government

On September 30, 2006, the Congress of the FSM appropriated $300,000 to the Plan for the purpose of partially paying the outstanding accounts payable of the Plan. The funds were received and recorded during the fiscal year 2007. No subsidy was received during fiscal year 2006.

(8) Going Concern

As of September 30, 2007, the Plan has incurred a net asset deficiency of approximately $782,511. Continuation of the Plan as a going concern is dependent on its ability to increase premiums, to reduce covered benefits and to obtain support, if necessary, from the FSM National Government. Management's plans to address this matter include: (1) continued negotiation for reductions in the amounts paid to the private providers for services rendered to its members and to carefully review and control member's utilization cost; (2) work closely with State Hospitals to implement strict screening of referral patients sent off-island and to introduce joint partnership with State Hospitals and Private Clinics to purchase diagnostic equipment to decrease the dependence on off-island care; (3) reexamine the current premium rates and consider increasing premiums to head off any further deficits of the Plan; (4) recommend to the FSM Congress to consider reinstating limitations on coverage for pre-existing conditions for new members; (5) aggressive collections of receivables, promote members' awareness on their healthcare benefits and improve public relations to government officials and members; (6) continue to provide training to employees to enhance competence level and knowledge to develop work efficiency and productivity; and (7) continue to improve the existing database by investing in a more unified computerization system for better tracking of medical cases and expenses, as well as the production of detailed reports needed to ensure efficient operation.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
MiCare Plan, Inc.:

We have audited the financial statements of the MiCare Plan, Inc. (the "Plan"), as of and for the year ended September 30, 2007, and have issued our report thereon dated March 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the Plan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Plan's financial statement that is more than inconsequential will not be prevented or detected by the Plan's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Plan's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Plan in a separate letter dated March 3, 2008.

This report is intended solely for the information and use of the Board of Directors and management of the Plan and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

March 3, 2008