

MICARE PLAN, INC.

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

MICARE PLAN, INC.

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INDEPENDENT AUDITORS' REPORT

Chairman
Board of Directors
MiCare Plan, Inc.:

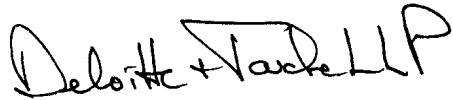
We have audited the accompanying statements of net assets of MiCare Plan, Inc. (the "Plan"), a component unit of the Federated States of Micronesia National Government, as of September 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets (deficiency) and of cash 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 MiCare Plan, Inc. as of September 30, 2010 and 2009, and the changes in its net assets 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 through 7 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 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 29, 2011, 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.

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

March 29, 2011

MICARE PLAN, INC.

Management's Discussion and Analysis Year Ending September 30, 2010

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 fiscal year ended September 30, 2010. This discussion has been prepared by the management and should be read in conjunction with the financial statements and notes thereto, which follow this section.

Background

MiCare Plan was established by the Federated States of Micronesia under Public Law 3-82 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 three plan options.

The Plan is under the governance of the Board of Directors, which consists of four (4) member representatives from each state government, one (1) from the FSM National Government, and one (1) member representing the private health sector, all of which are appointed by the President and confirmed by the FSM Congress. The seventh member of the board is the Administrator who is appointed by the Board of Directors and serves as an ex-officio member.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Plan. There are three financial statements presented, namely the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements present the overall financial picture of the Plan from the economic resources measurement focus using the accrual basis of accounting.

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

Financial Highlights

- For the fiscal year ended September 30, 2010, MiCare Plan's net assets increased by \$550,793 or 216% compared to fiscal year 2009 increase in net assets of \$569,137.
- Total non-operating revenues in 2010 increased by 35% or \$51,999 from the previous fiscal year.
- During fiscal year 2010, the Plan's total operating expenses were \$5,043,359 or 0.9% more than last year.
- During the year, investment account went up to \$1,019,741 compared to the previous fiscal year of \$601,722.
- Total liabilities of the Plan of \$890,212 were 23% lower than last year of \$1,161,613.

MICARE PLAN, INC.

Management's Discussion and Analysis Year Ending September 30, 2010

Statement of Net Assets

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

From the data presented, readers of the statement of net assets are able to determine the assets available to continue the operations of the Plan. They also are able to determine how much the Plan owes vendors and others. Finally, the statement of net assets provides a picture of the net assets (assets minus liabilities), which is a useful indicator of whether the overall financial position of the Plan is improving or weakening.

The following table summarizes the financial condition of MiCare Plan for the years ended September 30, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 1,640,829	\$ 1,373,171	\$ 1,170,803
Noncurrent assets	<u>55,581</u>	<u>43,847</u>	<u>33,571</u>
Total assets	<u>\$ 1,696,410</u>	<u>\$ 1,417,018</u>	<u>\$ 1,204,374</u>
Liabilities:			
Current liabilities	\$ <u>890,212</u>	\$ <u>1,161,613</u>	\$ <u>1,518,106</u>
Net assets (deficiency):			
Invested in capital assets	55,581	43,847	33,571
Unrestricted	<u>750,617</u>	<u>211,558</u>	<u>(347,303)</u>
Total net assets (deficiency)	<u>806,198</u>	<u>255,405</u>	<u>(313,732)</u>
Total liabilities and net assets (deficiency)	<u>\$ 1,696,410</u>	<u>\$ 1,417,018</u>	<u>\$ 1,204,374</u>

Current assets increased by \$267,658 or 19.5% compared to prior year. Cash and cash equivalents decreased by \$85,080 or 35%. Investments increased by \$418,019 or 69.5% compared to last year of \$601,722. The increase in investments was brought about by transferring \$390,000 from a savings account coupled with the increase in fair value of investments of \$28,018. Premium receivables slightly decreased by 3% while accounts receivable decreased to \$6,312 due to writing-off uncollectible accounts. Noncurrent assets comprised the Plan's property and equipment, net of accumulated depreciation. The increase of noncurrent assets in 2010 was primarily due to the acquisition of a new vehicle and a computer data server at a cost of \$23,895 less current year depreciation expense of \$12,161. For additional information concerning capital assets, please see note 5 to the financial statements.

MICARE PLAN, INC.

Management's Discussion and Analysis Year Ending September 30, 2010

Current liabilities of \$890,212 decreased by \$271,401 or 23% from \$1,161,613 in previous year to \$890,212 in 2010. The primary cause of the change was due to payment of outstanding obligations to health care providers and writing-off obsolete payables of \$70,374. Net assets for the year 2010 increased by 216% to \$806,198 compared to 2009 of \$255,405.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the statement of net assets are based on the activity in the statement of revenues, expenses and changes in net assets. 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 is the major source of operating revenues of MiCare Plan. Operating expenses are those medical expenses incurred by plan members and the necessary cost to administer the Plan to carry out its mission. Non-operating revenues are revenues received for which goods or services are not provided such as investment income, appropriations from FSM National Government and others.

The following table summarizes the financial operations of MiCare Plan for the years ended September 30, 2010, 2009 and 2008;

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 5,392,262	\$ 5,416,496	\$ 5,489,620
Operating expenses	<u>(5,043,359)</u>	<u>(4,997,250)</u>	<u>(5,163,378)</u>
Net operating income	348,903	419,246	326,242
Non operating revenues	<u>201,890</u>	<u>149,891</u>	<u>142,537</u>
Increase in net assets	550,793	569,137	468,779
Net assets (deficiency) beginning of year	<u>255,405</u>	<u>(313,732)</u>	<u>(782,511)</u>
Net assets (deficiency) end of year	\$ <u>806,198</u>	\$ <u>255,405</u>	\$ <u>(313,732)</u>

In fiscal year 2010, gross premium collections of \$5,415,675 from Plan members leveled off from last year. The following table indicates premium collections from public and private sector enrollees for fiscal year 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Public Sector	\$ 4,254,829	\$ 4,300,591	\$ 4,397,038
Private Sector	<u>1,160,846</u>	<u>1,106,255</u>	<u>1,084,424</u>
Total	\$ <u>5,415,675</u>	\$ <u>5,406,846</u>	\$ <u>5,481,462</u>

MICARE PLAN, INC.

Management's Discussion and Analysis Year Ending September 30, 2010

Premium contributions from public sector in 2010 declined by \$45,762 (1%) compared to last year. The decrease of about 1% in premium collections was due to minimal decrease of enrollees from Chuuk State, Kosrae, FSM Telecom and COM-FSM. On the other hand, Private Sector contributions increased by \$54,590 to \$1,160,845. The 5% increase in collections was due to the increase of enrollment from private businesses in Yap, Pohnpei and Chuuk.

Among the Public entities, FSM National Government and its agencies has the highest premium contribution to the Plan in 2010, from which the Plan collected \$1,863,635 (44%); followed by Pohnpei State Government and agencies \$1,578,520 (37%); Kosrae \$423,220 (10%); Yap \$225,309 (5%) and Chuuk \$164,145 (4%).

For private sector contributions, private businesses in Pohnpei contributed \$1,017,813 or (88%) in fiscal year 2010 followed by Yap \$105,514 (9%); Chuuk \$25,619 (2%) and Kosrae \$11,900 (1%).

Total operating expenses for fiscal year 2010 increased by 0.9% to \$5,043,359 compared to \$4,997,250 of last year and this was attributed by a 15% increase in administrative costs. Medical claims and administrative expenses are the two major types of operating expenses of the Plan. Medical expenses in fiscal year 2010 were almost the same level as last year with a small increase of \$7,758. The following table below indicates the medical expenses by type of claims for fiscal year 2010, 2009 and 2008.

<u>Type of Claims</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Local State Hospitals	\$ 701,626	\$ 577,518	\$ 452,086
Local Private Providers	1,390,465	1,545,087	1,518,232
Off-island Hospitals	2,160,916	2,065,113	2,478,429
Patients Airfare	278,330	336,671	306,001
Patients Stipend	<u>3,600</u>	<u>2,790</u>	<u>2,700</u>
Total Medical Claims	\$ <u>4,534,937</u>	\$ <u>4,527,179</u>	\$ <u>4,757,448</u>

In fiscal year 2010, medical spending for off-island hospitals has the highest utilization rate of 48%, followed by local private providers 31%, local state hospitals 15%, patient airfare ticket and stipends 6%.

Medical claims from local state hospitals increased by \$124,108 compared to FY 2009. The shifting of payment to a capitation amount for Pohnpei State Hospital and the increase of reimbursement claims from Yap State Hospital caused the local state hospitals payment increase of 21%.

Expenses for local private healthcare providers decreased by \$154,622 (10%) for this year compared to last year. The decrease was brought by the rigorous implementation of cost containment measures and control in processing local claims.

MICARE PLAN, INC.

Management's Discussion and Analysis Year Ending September 30, 2010

Off-island medical expenses have shown an increase of \$95,803 or 5% to \$2,160,916 compared to the last year figure of \$2,065,113. Although the number of basic referral patients decreased by 17% in 2010, the significant increase of off-island cost was attributed to medical claims incurred by supplemental plan members from different Hawaii healthcare providers.

Patient airfare costs decreased by 17% or \$58,341 compared to last year. The decrease in the number of referrals to Manila from 265 patients (FY2009) to 220 patients (FY2010) dramatically changed the payment of airfare tickets.

Net administrative expenses of \$496,261 and fixed assets acquisitions of \$23,895 were paid during fiscal year 2010. This was 1.6% less than the approved budget of \$529,137 in 2010 and 4% less than the level of administrative costs allowed by law. The major cause of increase of administrative expenses of \$41,701 or 9% was primarily due to payment of contractual services and travel expenses. Contractual services that were paid in fiscal year 2010 include medical claims audit, diagnostic capacity study, and medical billing seminar.

Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated February 23, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements and can be obtained via the Office of the Public Auditor's website at www.fsmopa.fm.

Economic Outlook

In fiscal year 2011, MiCare will continue to closely monitor its collections and expenditures and enforce cost controls and measures at all levels. Though premium collections from both sectors are not expected to increase in the coming year, the management will direct its attention to find more ways in reducing medical costs and operational expenditures in order to increase the net assets of the plan.

FY 2010 represents the second full year of implementing the 5 year Strategic Goal (2009-2013) that was approved by MiCare's Board of Directors. The Strategic Goal has effectively guided the Board and management in dealing with program implementations, measures and challenges. Facing the year 2011, MiCare's ultimate goal is to build a strong capital reserve to ensure that the Plan is financially sustained and equipped in times of serious challenges. Programs and activities in 2011 include contracting an actuarial consultant to study the premium structures and medical expenditures and a claim auditor to examine the medical claims paid by the Plan to private healthcare providers. Customer service is one area that the Plan needs to improve in 2011 to better serve the needs of MiCare members and by hiring a Public Relations Specialist and IT Specialist will increase members awareness and foster good relationships with insured members and government officials. Management will continue to seek subsidies from FSM Congress to assist the Plan in funding special projects and activities.

MICARE PLAN, INC.Statements of Net Assets
September 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 157,099	\$ 242,179
Investments	1,019,741	601,722
Premiums receivable	232,721	241,256
Accounts receivable, net	6,312	65,698
Prepaid expenses	224,956	222,316
Total current assets	1,640,829	1,373,171
Noncurrent assets:		
Fixed assets, net	55,581	43,847
Total assets	<u>\$ 1,696,410</u>	<u>\$ 1,417,018</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable - medical claims	\$ 857,268	\$ 1,094,595
Accounts payable - other	32,944	67,018
Total liabilities	890,212	1,161,613
Commitments and contingencies		
Net assets:		
Invested in capital assets	55,581	43,847
Unrestricted	750,617	211,558
Total net assets	806,198	255,405
Total liabilities and net assets	<u>\$ 1,696,410</u>	<u>\$ 1,417,018</u>

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Revenues, Expenses, and Changes in Net Assets (Deficiency) Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Insurance premiums	\$ 5,415,675	\$ 5,406,846
Miscellaneous	9,495	9,650
	5,425,170	5,416,496
Less uncollectable accounts	(32,908)	-
Total operating revenues	5,392,262	5,416,496
Operating expenses:		
Medical claims	4,534,937	4,527,179
Personnel services	322,071	325,546
Travel	48,794	31,793
Contractual services	32,637	12,500
Rent	20,296	20,808
Supplies	18,259	16,225
Communication	14,522	13,755
Depreciation	12,161	15,511
Utilities	11,245	12,685
Printing	4,474	5,460
Repairs and maintenance	3,857	4,205
Insurance	1,075	997
Miscellaneous	19,031	10,586
Total operating expenses	5,043,359	4,997,250
Earnings from operations	348,903	419,246
Non-operating revenues:		
Contribution from FSM National Government	100,000	100,000
Net increase in the fair value of investments	28,018	45,982
Other revenues	73,872	3,909
Total non-operating revenues	201,890	149,891
Change in net assets	550,793	569,137
Net assets (deficiency) at beginning of year	255,405	(313,732)
Net assets at end of year	\$ 806,198	\$ 255,405

See accompanying notes to financial statements.

MICARE PLAN, INC.

Statements of Cash Flows Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Premiums received	\$ 5,460,183	\$ 5,436,233
Medical claims and benefits paid	(4,701,890)	(4,930,084)
Cash paid to suppliers and employees	(532,975)	(445,319)
Net cash provided by operating activities	225,318	60,830
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(23,895)	(25,787)
Proceeds from sale of fixed assets	3,497	3,909
Net cash used for capital and related financing activities	(20,398)	(21,878)
Cash flows from investing activities:		
Additions to investments	(390,000)	(50,000)
Net purchases, sales and maturities of investments	(25,420)	(19,424)
Interest and dividends received	25,420	19,424
Net cash used for investing activities	(390,000)	(50,000)
Cash flows from noncapital financing activities:		
Contribution from the FSM National Government	100,000	100,000
Net change in cash and cash equivalents	(85,080)	88,952
Cash and cash equivalents at beginning of year	242,179	153,227
Cash and cash equivalents at end of year	\$ 157,099	\$ 242,179
Reconciliation of earnings from operations to net cash provided by operating activities:		
Earnings from operations	\$ 348,903	\$ 419,246
Adjustment to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	12,161	15,511
Bad debts	32,908	-
(Increase) decrease in assets:		
Premiums receivable	8,535	19,737
Accounts receivable	26,478	(37,323)
Prepaid expenses	(2,640)	152
Increase (decrease) in liabilities:		
Accounts payable - medical claims	(166,953)	(402,905)
Accounts payable - other	(34,074)	46,412
Net cash provided by operating activities	\$ 225,318	\$ 60,830

See accompanying notes to financial statements.

MICARE PLAN, INC.

Notes to Financial Statements
September 30, 2010 and 2009

(1) Reporting Entity

MiCare Plan (the Plan) was created in 2003 by Public Law 12-77 of the Twelfth Congress of the Federated States of Micronesia (FSM) National Government. The purpose of the Plan is to provide, arrange for, pay for, or reimburse the costs of medical, dental and vision treatment and care, hospitalization, surgery, prescription drugs, medicine, prosthetic appliances, out-patient care, and other medical care benefits, in cash or the equivalent in medicines and supplies.

The Plan's financial statements are incorporated into the financial statements of the FSM National Government as a component unit. The Plan is under the governance of a seven-member Board of Directors, four of whom represents each of the four states of the FSM, one represents the FSM National Government, and one the private healthcare sector. These six members are appointed by the FSM President with the confirmation of the FSM Congress. The seventh member of the Board is the Plan Administrator who is selected by the Board and serves as an ex-officio member.

(2) Summary of Significant Accounting Policies

The accounting policies of the Plan conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. 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 Principles 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.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures* establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement 34, retained earnings are presented in the following net asset categories:

- Invested in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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 PLAN, INC.

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

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 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.

Cash and Cash Equivalents

For the purposes of the statements of net assets 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.

MICARE PLAN, INC.

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

Premiums Receivable

Premiums receivable are primarily due from the FSM National Government. The Plan establishes an allowance for uncollectible accounts based on the credit risk of specific customers, historical trends and other information. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

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 assets.

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.

Medical Claims Payable

Medical claims payable represent the estimated liability on claims reported to the Plan and reserves for claims incurred but not yet reported. The liabilities for claims are determined using estimates of the ultimate net cost of all claims incurred through the financial statement date. While management believes that the liability for medical claims payable is adequate, such estimates may be more or less than the amounts ultimately paid when the claims are settled.

New Accounting Standards

During fiscal year 2010, the Plan implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

MICARE PLAN, INC.

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Plan.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Plan.

MICARE PLAN, INC.

Notes to Financial Statements
September 30, 2010 and 2009

(3) 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.

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, 2010 and 2009, the carrying amount of the Plan's total cash and cash equivalents was \$157,099 and \$242,179, respectively, and the corresponding bank balance was \$407,622 and \$622,409, respectively, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of \$259,143 and \$262,268, 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, 2010 and 2009.

MICARE PLAN, INC.

Notes to Financial Statements September 30, 2010 and 2009

(3) Deposits and Investments, Continued

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.

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, 2010 and 2009, investments at fair value are as follows:

	<u>2010</u>	<u>2009</u>
Fixed income securities:		
Domestic fixed income	\$ 1,006,235	\$ 569,943
Other investments:		
Money market funds	<u>13,506</u>	<u>31,779</u>
	<u>\$ 1,019,741</u>	<u>\$ 601,722</u>

As of September 30, 2010, 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	\$ 99,993	\$ 182,947	\$ -	\$ -	\$ 282,940
U.S. Government agencies obligations	AAA	5,020	422,488	-	-	427,508
Corporate bonds	AAA	-	11,895	-	-	11,895
Corporate bonds	AA1	10,383	5,468	-	-	15,851
Corporate bonds	AA2	5,070	31,941	-	-	37,011
Corporate bonds	AA3	2,023	37,746	-	-	39,769
Corporate bonds	A1	-	33,161	-	-	33,161
Corporate bonds	A2	-	86,698	3,000	-	89,698
Corporate bonds	A3	-	32,302	-	-	32,302
Corporate bonds	BAA1	-	11,158	-	-	11,158
Corporate bonds	BAA2	-	24,942	-	-	24,942
		<u>\$ 122,489</u>	<u>\$ 880,746</u>	<u>\$ 3,000</u>	<u>\$ -</u>	<u>\$1,006,235</u>

MICARE PLAN, INC.

Notes to Financial Statements September 30, 2010 and 2009

(3) Deposits and Investments, Continued

B. Investments, Continued:

As of September 30, 2009, 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	\$ -	\$ 15,395	\$ -	\$ -	\$ 15,395
U.S. Government agencies obligations	AAA	49,985	198,021	-	-	248,006
Corporate bonds	AAA	-	10,748	-	-	10,748
Corporate bonds	AA1	-	21,206	-	-	21,206
Corporate bonds	AA2	-	36,999	-	-	36,999
Corporate bonds	AA3	-	28,247	2,974	-	31,221
Corporate bonds	A1	-	28,630	2,022	-	30,652
Corporate bonds	A2	5,061	73,883	2,048	-	80,992
Corporate bonds	A3	-	31,450	-	-	31,450
Corporate bonds	BAA1	-	42,013	-	-	42,013
Corporate bonds	BAA2	-	21,261	-	-	21,261
		<u>\$ 55,046</u>	<u>\$ 507,853</u>	<u>\$ 7,044</u>	<u>\$ -</u>	<u>\$ 569,943</u>

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Plan will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Plan's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the Plan's name by the Plan's custodial financial institutions at September 30, 2010 and 2009.

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, 2010, more than 5 percent of the Plan's investments are in Federal Home Loan Bank and Federal National Mortgage Association, which represent 22% and 18%, respectively, of the Plan's total investments. As of September 30, 2009, more than 5 percent of the Plan's investments are in Home Depot, Inc. and the Federal Home Loan Bank, which represent 51% and 6%, respectively, of the Plan's total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

MICARE PLAN, INC.

Notes to Financial Statements September 30, 2010 and 2009

(4) Accounts Receivable

A summary of accounts receivable at September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Accounts receivable	\$ 108,878	\$ 136,471
Allowance for doubtful accounts	(102,566)	(70,773)
	<u>\$ 6,312</u>	<u>\$ 65,698</u>

(5) Fixed Assets

Capital asset activities for the years ended September 30, 2010 and 2009, are as follows:

	Balance October 1, <u>2009</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2010</u>
Office furniture, fixtures and equipment	\$ 87,369	\$ 3,895	\$ (4,934)	\$ 86,330
Vehicles	<u>79,733</u>	<u>20,000</u>	<u>(43,980)</u>	<u>55,753</u>
	167,102	23,895	(48,914)	142,083
Less accumulated depreciation	(123,255)	(12,161)	<u>48,914</u>	<u>(86,502)</u>
Net fixed assets	<u>\$ 43,847</u>	<u>\$ 11,734</u>	<u>\$ -</u>	<u>\$ 55,581</u>
	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2009</u>
Office furniture, fixtures and equipment	\$ 85,767	\$ 5,452	\$ (3,850)	\$ 87,369
Vehicles	<u>76,056</u>	<u>20,335</u>	<u>(16,658)</u>	<u>79,733</u>
	161,823	25,787	(20,508)	167,102
Less accumulated depreciation	(128,252)	(15,511)	<u>20,508</u>	<u>(123,255)</u>
Net fixed assets	<u>\$ 33,571</u>	<u>\$ 10,276</u>	<u>\$ -</u>	<u>\$ 43,847</u>

(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 PLAN, INC.

Notes to Financial Statements
September 30, 2010 and 2009

(6) Commitments and Contingencies, Continued

Lease Commitments

The Plan has five operating leases as of September 30, 2010. Two are residential real estate lease for contract employees and two represent leases for the main office in Pohnpei, and one for a liaison office in Manila (three with lease term of one year and two 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:

<u>Fiscal year ending September 30, 2010</u>	<u>Total</u>
2011	\$ 33,300
2012	33,300
2013	33,300
2014	33,300
2015	33,300
2016 – 2020	166,500
2021 – 2025	166,500
2026 – 2030	166,500
2031 – 2034	<u>133,200</u>
	<u>\$ 799,200</u>

(7) Contribution from the FSM National Government

During the years ended September 30, 2010 and 2009, the Congress of the FSM National Government appropriated \$100,000 each year to the Plan for the purpose of partially paying outstanding accounts payable of the Plan.

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

The Board of Directors
MiCare Plan, Inc.:

We have audited the financial statements of MiCare Plan, Inc. (the "Plan"), as of and for the year ended September 30, 2010, and have issued our report thereon dated March 29, 2011. 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 *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 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.

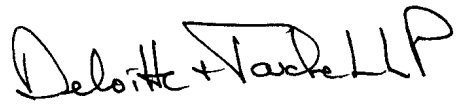
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 29, 2011.

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.

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

March 29, 2011