Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

June 12, 2013

The Board of Directors
MiCare Plan, Inc.

Dear Members of the Board:

We have performed an audit of the financial statements of MiCare Plan, Inc. (the Plan), a component unit of the FSM National Government, as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 12, 2013.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Plan is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated November 26, 2012. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards are:

- To express an opinion on the fairness of the presentation of the Plan's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2012 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and

- To report on the Plan's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2012 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

We considered the Plan's 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 do not express an opinion on the effectiveness of the Plan's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Plan's 2012 financial statements include management's estimate of the unbilled medical claims, which is determined based upon management's estimates of the ultimate net cost of all claims incurred through the financial statement date, management's estimate on the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2012, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Plan's financial reporting process. Such proposed adjustments, listed in Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2012 financial statements.

In addition, listed in Appendix B to Attachment I, is a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest and prior period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

The Plan's significant accounting policies are set forth in Note 2 to the Plan's 2012 financial statements. During the year ended September 30, 2012, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Plan:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

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

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Plan's 2012 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in the Plan's 2012 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Plan's 2012 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2012.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Plan's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Plan is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions were held or were the subject of correspondence with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Plan's management and staff and had unrestricted access to the Plan's senior management in the performance of our audit.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated June 12, 2013, wherein no matters involving the Plan's internal control over financial reporting that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

We noted certain matters that we reported to management of the Plan in a separate letter dated June 12, 2013.

* * * * * * * * *

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

We wish to thank the staff and management of the Plan for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

MiCare Federated States of Micronesia
P.O. Box 2156 Kolonia, Pohnpei FM 96941
Tel No. (691) 320-2549/5865 • Fax No. (691) 320-5693 • Email: info@micareplan.fm

June 12, 2013

Deloitte & Touche
P.O. Box 753
Kolonia, Pohnpei 96941

We are providing this letter in connection with your audits of the financial statements of MiCare Plan, Inc. (the Plan), a component unit of the Federated States of Micronesia National Government, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended, which collectively comprise the Plan's basic financial statements, for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Plan in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The fair presentation in the basic financial statements of financial position, results of operations, and cash flows in conformity with GAAP.

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the basic financial statements.

c. The design and implementation of programs and controls to prevent and detect fraud.

d. Establishing and maintaining effective internal control over financial reporting.

e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree with the recorded adjustments included in Appendix A.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:

   a. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.

   b. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

   c. Revenues are appropriately classified in the statement of activities.

   d. Deposits and investment securities are properly classified in category of custodial credit risk.

   e. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

   f. Required supplementary information is measured and presented within prescribed guidelines.

   g. Applicable laws and regulations are followed in adopting, approving and amending budgets.

2. The Plan has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Plan has made available to you all:

   a. Minutes of the meetings and summaries of actions of the Board of Directors from October 1, 2011 to the date of this letter. Board meetings were held on the following dates:

February 17, 2012	May 4, 2012	January 30, 2013
March 15, 2012	September 26, 2012	
April 23-24, 2012	December 12-14, 2012	

   b. Financial records and related data for all financial transactions of the Plan. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Plan and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

3. There has been no:

   a. Action taken by the Plan's management that contravenes the provisions of federal laws and Federated States of Micronesia (FSM) laws and regulations.

   b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.

5. The Plan has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Plan and do not believe that the financial statements are materially misstated as a result of fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the Plan involving:

    a. Management

    b. Employees who have significant roles in internal control over financial reporting

    c. Others if the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Plan received in communications from employees, former employees, analysts, regulators, or others.

8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*, except as disclosed in Note 6 to the basic financial statements.

9. We are responsible for compliance with State and FSM laws, rules and regulations, including compliance with provisions of grants and contracts relating to the Plan's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Plan is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

10. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Plan's ability to initiate, record, process, and report financial information.

11. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

Except where otherwise stated below, matters less than $28,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

12. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

13. The Plan has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

14. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated accounts receivable or payable, including sales, purchases, loans, transfer, leasing arrangements, and guarantees (written or oral).

    b. Guarantees, whether written or oral, under which the Plan is contingently liable.

15. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

16. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements.

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

17. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, Contingencies, except as disclosed in Note 6 to the basic financial statements.

18. The Plan has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

19. The Plan has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

20. No events have occurred subsequent to September 30, 2012, but before June 12, 2013, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

21. No department or agency of the Federal Government or the FSM National Government has reported a material instance of noncompliance to us.

22. We believe that all expenditures that have been deferred to future periods are recoverable.

23. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.

24. There are no control deficiencies in the design or operation of internal control over financial reporting that could adversely affect the Plan's ability to initiate, record, process, and report financial information.

25. We are aware of our requirement to disclose to you any change in the Plan's internal control over financial reporting that occurred during the Plan's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Plan's internal control over financial reporting and we advise you that no such changes have occurred that are reported to you.

26. With regard to the fair value measurements and disclosures of certain assets, we believe that:

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied in accordance with GAAP.

    b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America.

    c. No events have occurred subsequent to September 30, 2012 that require adjustment to the fair value measurements and disclosures included in the financial statements.

27. During fiscal year 2012, the Plan implemented the following pronouncements:

    - GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements.

    - GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

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

    In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 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 December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 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 July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Plan.

28. We represent to you that, subsequent to September 30, 2012, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses).

29. The Plan is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

30. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information.

    b. The required supplementary information is measured and presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

31. 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.

32. 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.

Nena S. Nena
Administrator

APPENDIX A

MiCare Plan, Inc.
Journal Entries - AJE

#	Name	Debit	Credit
	1 AJE 1 To adjust beginning net assets (Posted)		
420	Retained Earnings	440	-
1240	Other Income	-	440
		440	440

MiCare Plan, Inc.
Summary of Current Year Uncorrected Misstatements
September 30, 2012 Audit

APPENDIX B

Entry Description	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Profit and Loss Dr (Cr)
1. To reclassify NSF premium checks payments received.				
Receivable	14,212			
Cash	(14,212)			
	0	0	0	0