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June 28, 2017

The Board of Directors
FSM National Government Employees' Health Insurance Plan

Dear Members of the Board:

We have performed an audit of the financial statements of FSM National Government Employees' Health Insurance Plan (the Plan), a component unit of the FSM National Government, as of and for the year ended September 30, 2016, 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 28, 2017.

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.

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,

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

cc: To Management of FSM National Government Employees' Health Insurance Plan

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 September 29, 2016. 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 whether the statement of net position of the Plan as of September 30, 2016 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended September 30, 2016 (the “financial statements”), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) and perform specified procedures on the required supplementary information for the year ended September 30, 2016.
- 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, 2016 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 with the oversight of management and 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Plan’s preparation and fair presentation of the financial statements in order to design audit procedures that were 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 was not designed to 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 2016 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, and management’s estimate on the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts. During the year ended September 30, 2016, 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 as Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2016 financial statements.

In addition, listed in Appendices B and C to Attachment I, are summaries of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period 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 2016 financial statements. During the year ended September 30, 2016, 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. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statements resulted in additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

We have evaluated the significant qualitative aspects of the Plan's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE PLAN

When audited financial statements are included in documents containing other information such as the Plan's 2016 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 2016 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 of Directors.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Plan's 2016 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF 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 2016.

SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR 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.

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.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated June 28, 2017, 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, which was based on the audit performed in accordance with *Government Auditing Standards*. Although we have included management's written responses to our comments contained in that report, such responses have not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We have also communicated to management, in a separate letter also dated June 28, 2017, certain control deficiencies and other matters that we identified during our audit.



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ATTACHMENT I

June 28, 2017

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

We are providing this letter in connection with your audits of the statements of net position of the FSMNG Employees' Health Insurance Plan (the Plan), a component unit of the Federated States of Micronesia National Government, as of September 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, for the purpose of expressing an opinion as to whether the 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 preparation and fair presentation in the basic financial statements of financial position of the Plan in conformity with GAAP
- b. The design, implementation, and maintenance of internal controls:
 - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - To prevent and detect fraud.
- c. 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 position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
 - b. Deposits and investment securities are properly classified in category of custodial credit risk.
 - c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - d. Required supplementary information is measured and presented within prescribed guidelines.
 - e. Applicable laws and regulations are followed in adopting, approving and amending budgets.
 - f. 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.
 - g. Revenues are appropriately classified in the statement of activities.
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:
 - a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. Board meetings were held on the following dates:

October 7-8, 2015	November 23-27, 2015	June 20-24, 2016
July 7-8, 2016	August 4-5, 2016	September 15-16, 2016
November 21-25, 2016	March 1-3, 2017	March 30, 2017
 - b. All financial records and related data for all financial transactions of the Plan and for all funds administered by the Plan. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by 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.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
 - a. Action taken by the Plan management that contravenes the provisions of federal laws and Federated States of Micronesia's (FSM) laws and regulations or of contracts and grants applicable to the Plan.

- b. Communications with 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.
5. 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.
6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2015 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix C.
7. We understand Incurred but Not Reported (IBNR) and subsequent disbursements were tested using statistical or other sampling techniques and that certain errors in recording IBNR as of September 30, 2016, were found by you in the sample items selected. The effect of the factual errors identified has been corrected or included in the summary of uncorrected misstatements attached to this letter as Appendix B. We also understand that to estimate the total amount of errors in IBNR, a mathematical projection of the likely errors has been computed, which results in a potential understatement of \$34,322 of IBNR at September 30, 2016. Only additional testing and verification by either the Plan or you would produce a more accurate estimate of the errors within accounts payable. Such potential overstatement is not included as part of Appendix B. Based on our judgment of the materiality of the overstatement, we believe the effects of such potential unrecorded errors, as well as the effects when considered with the items in Appendix B, are immaterial to the financial statements taken as a whole.
8. The Plan has not performed a formal 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.
9. We have no knowledge of any fraud or suspected fraud affecting the Plan involving:
 - c. Management
 - d. Employees who have significant roles in internal control over financial reporting
 - e. Others, where the fraud could have a material effect on the financial statements.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Plan financial statements communicated by employees, former employees, analysts, regulators, or others.
11. There are no unasserted claims or assessments that we are aware of that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.

12. Significant assumptions used by us in making accounting estimates are reasonable.
13. We are responsible for compliance with State, FSM and federal laws, rules and regulations, including compliance with the 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.
14. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
15. 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.
16. No organizations were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

Except where otherwise stated below, matters less than \$31,400 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.

17. Except as listed in Appendices B and C, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
18. The Plan has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
19. Regarding related parties:
 - a. We have disclosed to you the identity of the Plan's related parties and all the related party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
20. In preparing the financial statements in conformity with GAAP, 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.

21. There are no:
 - a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
 - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 6 to the financial statements.
22. 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.
23. The Plan has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
24. No department or agency of the Plan has reported a material instance of noncompliance to us.
25. 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 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
26. 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.
27. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
28. We have no intention of terminating our retirement plan or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our retirement plan to which we contribute.
29. During fiscal year ended September 30, 2016, the Plan implemented the following pronouncements:
 - GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement resulted in additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the financial statements.
 - GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the financial statements.
30. In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.
 31. In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.
 32. In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.
 33. In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

34. In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
35. In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
36. In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
37. In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
38. 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.
39. 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 Plan's financial statements due to management's inability to predict the ultimate outcome of these proceedings.
40. 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.
41. During the years ended September 30, 2016 and 2015, the Congress of the FSM National Government (FSMNG) appropriated \$80,000 to the Plan for the purpose of partially paying outstanding accounts payable of the Plan, of which \$73,055 and \$0 remain uncollected as of September 30, 2016 and 2015, respectively. The \$73,055 receivable at September 30, 2016 is being disputed and collection is dependent upon completion of a reconciliation between the Plan and FSMNG. The Plan's financial statements do not reflect any adjustments that may result that may impact the

recoverability of this asset.

42. At September 30, 2016, construction in-progress (CIP) of \$323,000 represents capitalized costs incurred on Healthcare Information Management Systems CIP project which was not successfully implemented in FY2016. Management has determined that this CIP will be continued and is valid as of September 30, 2016.
43. The Plan's financial statements have been prepared in conformity with GAAP, which contemplates the continuation of the Plan as a going concern. However, the Plan has sustained operating losses in recent years and as of September 30, 2016, the Plan has a negative current ratio. Furthermore, at September 30, 2016, a deficit unrestricted net position of \$797,720 exists at that date. Management believes actions presently being undertaken to improve the Plan's operating requirements in the implementation of a "5-Year Strategic Plan 2014-2018", which established specific objectives up to year 2018. The goal of the strategic plan is to strengthen the Plan's financial solvency and operational efficiency, and increase enrollment of the Plan.
44. No events have occurred subsequent to September 30, 2016, but before June 28, 2017, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

 6/28/17

Arlynn Chugen
Administrator

 6/28/17

Davelyn W. David
Comptroller

APPENDIX A - POSTED ADJUSTMENTS AND FINANCIAL STATEMENTS RECLASSIFICATION ENTRIES

Audit Adjustments			
#	Name	Debit	Credit
	1 AJE To adjust allowance for doubtful accounts.		
2350	Bad Debts	79,830.00	
175	Allowance for Doubtful accounts		79,830.00
		<u>79,830.00</u>	<u>79,830.00</u>
	To adjust allowance for doubtful accounts.		
	1 CAJE To accrue additional premium receivables.		
224	Premium Receivable	39,203.87	
1001.01	Pohnpei State Premium		540.97
1001.05	National Agencies Health Premium		38,662.90
		<u>39,203.87</u>	<u>39,203.87</u>
	To accrued additional premium receivables.		
	2 AJE To record IBNR reserve.		
2009	Medical claims - reserve	105,000.00	
304	IBNR - reserve		105,000.00
		<u>105,000.00</u>	<u>105,000.00</u>

Financial Statement Reclassification Entries			
#	Name	Debit	Credit
	1 RJE To reclass due from FSM Treasury.		
172 DT	Other receivables	73,055.00	
350	Due to/from FSM Treasury		73,055.00
		<u>73,055.00</u>	<u>73,055.00</u>
	To reclass due from FSM Treasury.		

Misstatement Description	Type of Mistatement	Balance Sheet			Income Statement
		Assets Dr (Cr)	Liabilities Dr (Cr)	Net Position Dr (Cr)	Revenue Expenses Dr (Cr)
1. To accrue unrecorded medical expenses.	Extrapolated		(34,322)		34,322
2. To reclassify to proper C&CE account.	Factual	0			
		0	(34,322)	0	34,322

ATTACHMENT I, CONTINUED

APPENDIX C - PRIOR YEAR ERRORS IDENTIFIED IN THE CURRENT YEAR

Misstatement Description	Type of Mistatement	Balance Sheet			Income Statement
		Assets Dr (Cr)	Liabilities Dr (Cr)	Net Position Dr (Cr)	Revenue Expenses Dr (Cr)
1. To record medical services incurred pertaining to prior years.	Factual		(9,655)		9,655
2. To record medical services incurred pertaining to prior years.	Factual		(52,667)		52,667
		0	(62,322)	0	62,322