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

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

Years ended September 30, 2024 and 2023
with Report of Independent Auditors

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(A Component Unit of The Federated States of Micronesia National Government)

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

Years ended September 30, 2024 and 2023

Contents

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Report of Independent Auditors

The Board of Directors
MiCare Health Insurance Plan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of MiCare Health Insurance Plan (the Plan), a component unit of the FSM National Government, as of and for the years ended September 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Plan as of September 30, 2024 and 2023, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2026, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Ernst + Young LLP

July 30, 2026

The following discussion and analysis on the financial performance and activity of MiCare Health Insurance Plan (the Plan) is to provide an introduction and understanding on the basic financial statements of the Plan for the fiscal year ended September 30, 2024. This discussion has been prepared by the management and should be read in conjunction with the financial statements and notes thereto, which follow this section.

Background

FSM National Government Employee's Health Insurance Plan (FSMNGEHIP), was established by the Federated States of Micronesia under Public Law 3-82 that was enacted on December 26, 1984 for the purpose of establishing a fund to pay for eligible members' certain medical expenses both on-island and off-island.

Participation to the Plan is optional for employees and employers, both public and private entities, in the Federated States of Micronesia with the exception of FSM National Government employees wherein their enrollment to the program is mandatory. Premiums are paid on a fixed bi-weekly rate for the five plan options: non-referral option, basic option, supplemental resident option, supplemental non-resident option, and regional/international workers option.

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

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

Changes to the MiCare Regulations on premiums and benefits were approved in fiscal year 2024. All changes were implemented starting October 1, 2025.

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

Financial Highlights

- Total net position at the end of FY2024 is $352,333.
- Total liabilities in FY2024 are $4,587,384, increased by $1,750,955 or 62% in comparison to the end of FY2023.
- Total net operating revenue in FY2024 is $6,497,268.
- Total operating expenses in FY2024 is $9,614,001.

Statement of Net Position

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

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

Current assets decreased by $1,058,900 compared to the prior year. Cash and cash equivalents decreased by $1,313,753. The decrease in cash and cash equivalents during FY2024 was attributable to the increase in off-island medical referral and increased related claims expenses.

Total payouts in the amount of $7,786,184 represent cash outflows from operating activities (claims, provider payments, etc.). Deposits in the amount of $6,477,848 represents cash inflow from operating activities (premium and reimbursement of patient share). Other net credit adjustments of $5,417 relate to the reconciliations, corrections, inflows/outflows in the investment account.

Investment increased by $235,433 compared to 2023. Accounts receivable for 2024 is $199,644, which includes of $81,473 of premium receivables and $118,171 of other receivables.

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

Other noncurrent assets include deposits with service providers (health providers & other service providers). The total value of the noncurrent assets is $334,330 which includes the following: deposits with service providers of $233,131 and a lease asset of $101,199.

Current liabilities in FY2024 increased. Current liabilities include medical claims in the amount of $4,198,733, other payables in the amount of $287,452, and lease liability – current portion of $29,222.

For FY2024, MiCare reported a net deficiency of $2,886,717, resulting in an ending net position of $352,333 as of September 30, 2024.

The following table summarizes the financial condition of the plan as of September 30, 2024, 2023, and 2022.

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

	2024	2023	2022
Assets:			
Current assets	$4,510,333	$5,569,233	$7,102,862
Noncurrent assets	429,384	506,246	581,723
Total assets	$4,939,717	$6,075,479	$7,684,585
Liabilities:			
Current liabilities	$4,515,407	$2,735,230	$1,904,701
Noncurrent liabilities	71,977	101,199	129,492
Total liabilities	4,587,384	2,836,429	2,034,193
Net position			
Invested in capital	95,054	157,593	190,033
Unrestricted	257,279	3,081,457	5,460,359
Total net position	352,333	3,239,050	5,650,392
Total liabilities and Net position	$4,939,717	$6,075,479	$7,684,585

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the statement of net position are based on the activity in the statement of revenues, expenses, and changes in net position. The purpose of this statement is to present the revenues received by the Plan, both operating and non-operating, and expenses incurred by the Plan, operating and non-operating, and any revenues, expenses, gains and losses received or spent by the Plan.

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

In fiscal year 2024, the net operating revenue collection was $6,497,268 which is $6,934,933 revenue net of $437,665 write off of bad debts of both premium receivable and patient shares. Of the total amount of health premium of $6,934,183 in fiscal year 2024, Pohnpei State had the highest premium contribution to the Plan, from which the Plan collected $4,254,185 (63%); followed by National $1,360,347 (20%); Kosrae State $560,177 (8%); Yap State $511,308 (8%), Chuuk State $222,969 (3%) and Overseas $25,197 (less than 1%). Premium for each state represents premium received from state government, agencies, private business and individual accounts. Premium received for National Government represents all FSM National Government employees, and premiums received for Overseas represent those residing outside of FSM.

The extended pharmacy coverage is optional and is only for members who need more than 30 supply of medicine. Total collection for extended pharmacy premium was $16,994. Pohnpei has the highest members under the extended pharmacy coverage followed by Yap, Kosrae and Overseas members. The Extended Pharmacy Coverage program will no longer be required effective October 1, 2024.

Total operating expenses for fiscal year 2024 increased by 17% to $9,614,001 compared to $8,245,902 of 2023. Medical claims and administrative expenses are the two major types of operating expenses of the Plan.

The following table summarizes the financial operations of the plan for the years ended September 30, 2024, 2023 and 2022.

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

	2024	**2023**	**2022**
Operating revenues, net	$ 6,497,268	$ 5,793,374	$ 6,937,477
Operating expenses	9,614,001	8,245,902	5,138,590
Net operating (expense) income	(3,116,733)	(2,452,528)	1,798,887
Non-operating revenues (expense), net	230,016	41,186	(253,902)
(Decrease) increase in net position	(2,886,717)	(2,411,342)	1,544,985
Net position at beginning of year	3,239,050	5,650,392	4,105,407
Net position at end of year	$ 352,333	$ 3,239,050	$ 5,650,392

Table 3: Breakdown of medical and administrative expenses

Operating Expenses	2024	Increase / (Decrease)	2023	Increase / (Decrease)	2022
Medical Claims	$8,706,559	15%	$7,559,939	65%	$4,579,960
Administration	907,442	32%	685,963	23%	558,630
	$9,614,001		$8,245,902		$5,138,590

The following table indicates the medical expenses by type of claims for fiscal year 2024.

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

State	Off Island Claims	Airfare	Chronic Medicine	Shipments of Remains	Stipend/Visa	Capitation	On Island Claims	Total Medical Claims
Pohnpei	$3,596,993	$601,204	$129,103	$42,251	$ 86,775	$ 456,000	$1,152,951	$6,065,277
Kosrae	365,931	153,098	-	13,308	14,038	120,000	-	666,375
Chuuk	85,332	10,849	-	-	830	72,000	-	169,011
Yap	620,346	97,103	-	-	3,176	369,000	-	1,089,625
Overseas	4,226	-	1,856	-	-	-	-	6,082
Claims Prev Yrs	760,844	-	-	-	-	-	376,724	1,137,568
TMC (Prev yrs)	(252,427)	-	-	-	-	-	(174,952)	(427,379)
	$5,181,245	$862,254	$130,959	$55,559	$104,819	$1,017,000	$1,354,723	$8,706,559

Net administrative expenses for 2024 was $907,442.

Management's Discussion and Analysis for the fiscal year ended September 30, 2023 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated April 28, 2025. That Discussion and Analysis explains the major factors impacting the 2023 and 2022 financial statements and can be obtained via the Office of the Public Auditor's website at www.fsmopa.fm or MiCare Plan's website at www.micareplan.fm.

Economic Outlook

Management's Discussion & Analysis (MD&A): 2025 and 2026 Economic Outlook Report

The 2025 and 2026 economic environment for the Federated States of Micronesia (FSM) features subdued economic growth at 0.7% alongside moderating consumer inflation projected at 3.2% to 3.8%. For the MiCare Health Insurance Plan, this macroeconomic slowdown creates dual pressures: a compressed revenue foundation caused by stagnant private-sector employment, alongside rising operational healthcare claims driven by elevated import costs and regional medical inflation. To ensure long-term fund sustainability, Management has outlined an immediate, targeted cost-containment strategy to control outbound expenditure and rebalance premium revenue against actual care delivery costs.

1. Key Macroeconomic Indicators Impacting MiCare

The following performance boundaries shape MiCare's 2025 and 2026 operational budget:

Macroeconomic Metric	**2026 Projected Performance**
Real GDP Growth Rate	0.7% (Subdued/Moderating)
Consumer Price Inflation	3.2% - 3.8%
Per Capita Healthcare Spending	$546.27 (+4.7% YoY)
Core Macro Risks	Emigration, Labor Shortages

Sources:
https://www.imf.org/en/news/articles/2026/05/05/pr26138-micronesia-imf-executive-board-concludes-2026-article-iv-consultation
https://geofactbook.com/countries/micronesia-fed-states-of/health-care-spending-per-capita

2. Premium Revenue Outlook & Membership Constraints

- **Compressed Real Incomes:** Flat real wage growth slows premium collections from the private sector.
- **Labor Shortages and Emigration:** Ongoing domestic skill shortages reduce the local insurable workforce pool.
- **Policy Cushioning:** Recent revisions to coverage guidelines and legal frameworks stabilize baseline member metrics.

3. Medical Claims & Operational Expense Forecasts

- **Elevated Cost of Care:** FSM healthcare spending per capita will climb 4.7% to reach $546.27.
- **Surging Off-Island Referral Expenses:** Rising transport, fuel, and global medical costs swell cross-border provider claims.
- **Local Outbreak Pressures:** Rising public health burdens—such as the recent pertussis outbreak on Pohnpei—increase clinical utilization.

4. Cost-Containment Action Plan (FY 2026 Implementation)

To mitigate these fiscal headwinds and stabilize the Plan's net asset base, MiCare will deploy a multi-pronged containment framework targeted at revenue realignment and overseas medical referral logistics:

A. **Premium Restructuring & Revenue Realignment**

- **Claim-to-Premium Calibration:** Restructure the existing premium tiers across all enrollment brackets to reflect actual, current claim costs.
- **Actuarial Adjustments:** Move away from legacy flat-rate schedules to index premium adjustments directly to the 4.7% year-over-year escalation in per capita medical delivery costs.

B. **Overseas Referral Logistics & Subsidy Reform**

- **Airfare Co-Sharing Mandate:** Introduce a 5% member co-share requirement on all outbound and return medical referral airfares to offset volatile transpacific aviation fuel surcharges.
- **Stipend Reduction:** Lower off-island patient and escort daily maintenance stipends by 20% to streamline non-clinical operational spend.

C. **Strategic Volume Management**

- **Referral Rationing:** Enforce strict clinical triaging protocols to ration overseas referrals by 20%.
- **Domestic Utilization Optimization:** Pivot non-critical cases to expanded local clinical capacities and telemedicine avenues, reserving off-island care strictly for life-threatening or complex tertiary cases.

For any questions or clarification, please contact MiCare office by telephone (691) 320-2549 or email info@micareplan.fm. The Management's Discussion and Analysis is designed to provide general overview of Plan's financial condition and performance. Questions concerning any of the information provided in this discussion and analysis or requests of information should be addressed to the Plan Administrator, MiCare Plan, PO Box 2156, Kolonia, Pohnpei FM 96941.

MiCare Health Insurance Plan

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

Statements of Net Position

	September 30, 2024	September 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	$1,633,439	$2,947,192
Investments	2,677,250	2,441,817
Premiums receivable	81,473	145,279
Accounts receivable, net	118,171	34,945
Total current assets	4,510,333	5,569,233
Capital assets:		
Non-depreciable capital assets, net of impairment	---	106,159
Capital assets, net of accumulated depreciation	95,054	51,434
	95,054	157,593
Deposits with service providers	233,131	219,162
Lease asset, net	101,199	129,491
Total assets	$4,939,717	$6,075,479
Liabilities and Net Position		
Current liabilities:		
Accounts payable – medical claims	$4,198,733	$2,522,175
Other liabilities	287,452	184,763
Current portion of lease liability	29,222	28,292
Total current liabilities	4,515,407	2,735,230
Noncurrent liabilities:		
Lease liability	71,977	101,199
Total liabilities	4,587,384	2,836,429
Commitments and contingencies		
Net position:		
Net investment in capital assets	95,054	157,593
Unrestricted	257,279	3,081,457
Total net position	352,333	3,239,050
Total liabilities and net position	$4,939,717	$6,075,479

See accompanying notes.

Statements of Revenues, Expenses, and Changes in Net Position

	Year ended September 30, 2024	Year ended September 30, 2023
Operating revenues:		
Insurance premiums	$6,934,183	$6,776,982
Miscellaneous	750	324
	6,934,933	6,777,306
Bad debt expense	(437,665)	(983,932)
Net operating revenues	6,497,268	5,793,374
Operating expenses:		
Medical claims	8,706,559	7,559,939
Personnel services	502,009	403,912
Travel	98,548	41,062
Contractual services	63,500	75,034
Depreciation	62,539	39,292
Rent	36,976	40,691
Supplies	36,223	17,766
Communication	30,839	23,294
Utilities	12,585	13,632
Miscellaneous	64,223	31,280
Net operating expenses	9,614,001	8,245,902
Loss from operations	(3,116,733)	(2,452,528)
Non-operating revenues:		
Net increase in the fair value of investments	224,423	31,657
Other revenues	5,593	9,529
Non-operating income	230,016	41,186
Change in net position	(2,886,717)	(2,411,342)
Net position at beginning of year	3,239,050	5,650,392
Net position at end of year	$ 352,333	$3,239,050

See accompanying notes.

Statements of Cash Flows

	Year ended September 30, 2024	2023
Cash flows from operating activities:		
Premiums received	$ 6,477,848	$ 5,756,266
Medical claims and benefits paid	(7,030,001)	(6,768,395)
Cash paid to suppliers and employees	(756,183)	(592,942)
Net cash used in operating activities	(1,308,336)	(1,605,071)
Cash flows from capital and related financing activity:		
Acquisition of capital assets	---	(6,852)
Cash flows from investing activities:		
Net purchases, sales and maturities of investments	(11,010)	2,200
Interest and dividends received	5,593	9,529
Net cash (used in) provided by investing activities	(5,417)	11,729
Net change in cash and cash equivalents	(1,313,753)	(1,600,194)
Cash and cash equivalents at beginning of year	2,947,192	4,547,386
Cash and cash equivalents at end of year	$1,633,439	$ 2,947,192
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	$(3,116,733)	$(2,452,528)
Adjustment to reconcile loss from operations to net cash used in operating activities:		
Depreciation	62,539	39,292
(Increase) decrease in assets:		
Premiums receivable	63,806	(47,689)
Accounts receivable	(83,226)	10,581
Deposits with service providers	(13,969)	15,645
Increase in liabilities:		
Accounts payable – medical claims	1,676,558	791,544
Other liabilities	102,689	38,084
Net cash used in operating activities	$(1,308,336)	$(1,605,071)

See accompanying notes.

1. Reporting Entity

FSM National Government Employees' Health Insurance Plan also known as MiCare Plan, Inc. (the Plan) was initially created by Public Law 3-82 in 1984 and amended by Public Law 12-77 of the Twelfth Congress of the Federated States of Micronesia (FSM) National Government in 2003. Public Law 20-72, MiCare Health Insurance Plan Act of 1984, which amended title 52 of the Code of FSM to realign the name of the Plan to "MiCare Health Insurance Plan". On March 21, 2019, the FSM Office of the Registrar of the Plans approved the adopted changes to the MiCare regulations which become effective April 1, 2019. The purpose of the Plan is to provide, arrange for, pay for, or reimburse the costs of medical, dental and vision treatment and care, hospitalization, surgery, prescription drugs, medicine, prosthetic appliances, out-patient care, and other medical care benefits, in cash or the equivalent in medicines and supplies.

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

2. Summary of Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) establishes financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB, equity is presented in the following net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation, plus construction or improvement of those assets, net of related debts.

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

2. Summary of Significant Accounting Policies, continued

Accounting Estimates

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

Basis of Accounting

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

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

Revenue Recognition

Health care premiums from enrolled members of the Plan are reported as revenue in the period such becomes due. At September 30, 2024 and 2023, premium collected relating to subsequent periods of approximately $130,000 are included in other current liabilities in the accompanying statements of net position.

Cash and Cash Equivalents

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

Investments

Investments and related investment earnings are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

2. Summary of Significant Accounting Policies, continued

Premiums and Accounts Receivable

Premiums receivable are primarily due from the FSM National Government and its four State Governments. Accounts receivable mainly include patient's share of the medical billings paid by the Plan. The Plan establishes an allowance for uncollectible accounts based on the credit risk of specific customers, historical trends and other information. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to revenues. As of September 30, 2024 and 2023, the allowance for uncollectible accounts related to premiums receivable was $49,162 and $0, respectively.

Deposits with Service Providers

Security deposits for medical claims are maintained for certain services providers and are recorded as deposits with service providers in the accompanying statements of net position.

Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets. All of the assets have an estimated useful life of three to five years. The Plan capitalizes assets with individual values of $1,000 and over. Assets with a value below $1,000 are expensed in the year of purchase.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Plan has no items that qualify for reporting in this category.

Medical Claims Payable

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

2. Summary of Significant Accounting Policies, continued

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (addition of net position) until then. The Plan has no items that qualify for reporting in this category.

Recently Adopted Accounting Pronouncements

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. The implementation of this statement did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements—or modifies existing requirements—related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. GASB Statement No. 104 will be effective for fiscal year ending September 30, 2026.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. GASB Statement No. 105 will be effective for fiscal year ending September 30, 2027.

Management is currently evaluating the effects the above upcoming accounting pronouncements might have on the financial statements.

3. Deposits and Investments

A. Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Plan does not have a deposit policy for custodial credit risk.

As of September 30, 2024 and 2023, the carrying amount of the Plan's total cash and cash equivalents was $1,633,439 and $2,947,192 and the corresponding bank balance was $1,746,882 and $3,550,945, respectively, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2024 and 2023, bank deposits in the amount of $250,000 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, 2024 and 2023.

3. Deposits and Investments, continued

B. Investments:

As of September 30, 2024 and 2023, investments are as follows:

	2024	2023
Fixed income securities:		
Domestic fixed income	$2,677,250	$2,441,817

As of September 30, 2024 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	More than 10 Years	Fair Value
U.S. Treasury obligations	AAA	$214,022	$ 858,084	$181,993	$ ---	$1,254,099
U.S. Government agencies obligations	AA	28,557	142,132	---	39,910	210,599
Corporate bonds	Aaa	---	1,959	6,988	---	8,947
Corporate bonds	Aa	---	5,804	30,636	---	36,440
Corporate bonds	A	79,564	290,395	561,205	42,182	973,346
Corporate bonds	Baa	41,006	50,834	101,979	---	193,819
		$363,149	$1,349,208	$882,801	$82,092	$2,677,250

As of September 30, 2023 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	More than 10 Years	Fair Value
U.S. Treasury obligations	AAA	$319,055	$ 788,584	$209,439	$ ---	$1,317,078
U.S. Government agencies obligations	AA	57,658	160,298	---	35,028	252,984
Corporate bonds	Aaa	---	1,849	6,347	---	8,196
Corporate bonds	Aa	---	5,477	27,937	---	33,414
Corporate bonds	A	49,322	156,790	363,082	---	569,194
Corporate bonds	Baa	3,915	117,853	139,183	---	260,951
		$429,950	$1,230,851	$745,988	$35,028	$2,441,817

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

3. Deposits and Investments, continued

B. Investments, continued:

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Plan will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Plan's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the Plan's name by the Plan's custodial financial institution at September 30, 2024 and 2023.

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, 2024 and 2023, no investments in any one issuer (other than the U.S. Treasury) represented five percent or more of total investments for the Plan.

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

The Plan categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Plan has the following recurring fair value measurements as of September 30, 2024 and 2023:

		Fair Value Measurements Using		
	September 30, 2024	Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income securities	$2,677,250	$ ---	$2,677,250	$ ---

		Fair Value Measurements Using		
	September 30, 2023	Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income securities	$2,441,817	$ ---	$2,441,817	$ ---

4. Accounts Receivable

A summary of accounts receivable at September 30, 2024 and 2023 is as follows:

	2024	2023
Other receivables	$1,958,599	$1,757,646
Employee and travel advances	3,276	40,275
Accounts receivable	1,961,875	1,797,921
Allowance for doubtful accounts	(1,843,704)	(1,762,976)
	$ 118,171	$ 34,945

A significant portion of other receivables comprised of disallowed medical claim payments that are recoverable from the insured.

5. Capital Assets

Capital asset activities for the years ended September 30, 2024 and 2023, are as follows:

	Balance October 1, 2023	Additions	Deletions and Transfers	Balance September 30, 2024
Depreciable assets:				
Office furniture, fixtures and equipment	$170,944	$106,159	$ ---	$277,103
Vehicles	107,918	---	---	107,918
	278,862	106,159	---	385,021
Less accumulated depreciation	(227,428)	(62,539)	---	(289,967)
	51,434	43,620	---	95,054
Non-depreciable assets:				
Projects in progress	429,159	---	(106,159)	323,000
Less allowance for impairment loss	(323,000)	---	---	(323,000)
	106,159	---	(106,159)	---
Capital assets, net	$157,593	$ 43,620	$(106,159)	$ 95,054

5. Capital Assets, continued

	Balance October 1, 2022	Additions	Deletions	Balance September 30, 2023
Depreciable assets:				
Office furniture, fixtures and equipment	$164,092	$6,852	$ ---	$170,944
Vehicles	107,918	---	---	107,918
	272,010	6,852	---	278,862
Less accumulated depreciation	(188,136)	(39,292)	---	(227,428)
	83,874	(32,440)	---	51,434
Non-depreciable assets:				
Projects in progress	429,159	---	---	429,159
Less allowance for impairment loss	(323,000)	---	---	(323,000)
	106,159	---	---	106,159
Capital assets, net	$190,033	$(32,440)	$ ---	$157,593

Projects in progress include $323,000 for costs incurred in 2017 for the implementation of an automated billing system for which the initial project implementation failed. A valuation allowance has been provided in full. The Plan is exploring legal options to seek retributions from the vendor. During the year ended September 30, 2024, implementation of a new system was completed and the related costs of $106,000 were reclassified from projects in progress to other depreciable assets.

6. Related Party

During the years ended September 30, 2024 and 2023, the Plan incurred medical claims of $40,000 and $169,000, respectively, to a health center owned by an affiliate of the Plan administrator.

7. 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.

7. Commitments and Contingencies, continued

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.

8. Retirement Plan

The Plan has a retirement plan implemented effective June 1, 2012, administered by a private corporation. All permanent employees and contract employees with an employment contract of one or more years stated within the contract agreement with the Plan are eligible for the retirement plan. Employee contributions can be made at minimum of 3% up to 100% of earnings with a 100% match by the Plan up to 10% of employee compensation. The Plan Administrator is the designated retirement plan administrator. During the years ended September 30, 2024 and 2023, the Plan incurred an expense of $20,781 and $12,556, respectively, for matching contributions. As of September 30, 2024 and 2023, retirement plan assets were $226,143 and $150,961, respectively. Although the retirement plan does not accumulate assets in a trust where the retirement plan assets are legally protected from the creditors of the Plan and the plan administrator, the Plan has concluded that the activities of the retirement plan are not fiduciary activities of the Plan as the participants have the right to direct the exchange and the right to direct the employment of the retirement plan assets.

9. Leases

The Plan has a lease agreement with Moylan's Insurance Underwriters (FSM) for an office suite containing an area of 3,200 square feet. The lease agreement expired on February 28, 2023 and an option to renew for 5 years was excised to expire on February 28, 2028 with the same monthly lease of $2,672.

As of September 30, 2024 lease asset is as follows:

Lease Description	Classification	Gross Balance	Accumulated Amortization	Net Balance
Office lease	Building	$184,318	$83,119	$101,199

As of September 30, 2023 lease asset is as follows:

Lease Description	Classification	Gross Balance	Accumulated Amortization	Net Balance
Office lease	Building	$184,318	$54,827	$129,491

9. Leases, continued

The future lease payments for this transaction are as follows:

Year ending September 30,	Principal	Interest	Total
2025	$ 29,222	$ 2,849	$ 32,071
2026	30,184	1,887	32,071
2027	31,176	895	32,071
2028	10,617	72	10,689
	$101,199	$5,703	$106,902

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
MiCare Health Insurance Plan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of MiCare Health Insurance Plan (the Plan), which comprise the statement of net position as September 30, 2024, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 30, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

July 30, 2026