FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN
(A COMPONENT UNIT OF THE FEDERATED STATES OF
MICRONESIA NATIONAL GOVERNMENT)

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Years Ended September 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the FSM National Government Employees' Health Insurance Plan (the "Plan"), a component unit of the Federated States of Micronesia National Government, which comprise the statements of net position as of September 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FSM National Government Employees' Health Insurance Plan as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte.

Emphasis-of-a-Matter

Going Concern

The accompanying financial statements have been prepared assuming that the Plan will continue as a going concern. As discussed in Note 6 to the financial statements, the Plan has suffered recurring loss from operations and has a deficient unrestricted net position that raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 6 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 9 be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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 June 27, 2019, 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 solely 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.

Deloitte & Touche LLP

June 27, 2019

The following discussion and analysis on the financial performance and activity of MiCare Health Insurance Plan is to provide an introduction and understanding on the basic financial statements of the Plan for the fiscal year ended September 30, 2018. 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) or the Plan 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 (MiCare).

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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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 FSMNGEHIP are organized as a proprietary fund. Proprietary funds are used by governmental units that are operated in a manner similar to private business enterprises. FSMNGEHIP's budget is prepared by management with the concurrence of the board of directors.

Financial Highlights

- Net position in FY2018 is $1,591,999.
- Total liabilities in FY2018 decreased by $1,519,289 as compared to 2017.
- No significant change in the net operating revenues in FY2018 as compared to 2017. Net operating revenues decreased by $87,551 from FY2017.
- Total operating expenses increased by $103,997 or 1.37% from $7,617,916 in 2017 to $7,721,913 in 2018.
- Total net non-operating revenues increased from $503,665 in 2017 to $941,303 in 2018.

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 position (assets minus liabilities).

From the data presented, readers of the statement of net position are able to determine the assets available to continue the operations of the Plan. They also are able to determine how much the Plan owes vendors and others. Finally, the statement of net 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.

The following table summarizes the financial condition of the Plan for the years ended September 30, 2018, 2017, 2016, 2015 and 2014.

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

	2018	2017	2016	2015	2014
Assets:					
Current assets	$ 1,899,039	$3,534,060	$ 1,873,695	$ 1,807,572	$ 1,877,070
Noncurrent assets	274,529	606,854	736,366	573,212	401,169
Total assets	$ 2,173,568	$ 4,140,914	$ 2,610,061	$ 2,380,784	$ 2,278,239
Liabilities:					
Current liabilities	$ 3,765,567	$ 5,284,856	$ 3,059,856	$ 2,012,979	$ 1,580,657
Net position:					
Invested in capital assets	2,636	337,695	347,925	216,176	42,488
Unrestricted	(1,594,635)	(1,481,637)	(797,720)	151,629	655,135
Total net position	(1,591,999)	(1,143,942)	(449,795)	367,805	697,582
Total liabilities and net position	$ 2,173,568	$ 4,140,914	$ 2,610,061	$ 2,380,784	$ 2,278,239

Current assets decreased by $1,635,021 compared to prior year. Cash and cash equivalents decreased by $1,553,088. The decrease in cash and cash equivalent is due to the following:

1. Claims were reviewed and paid at a faster pace as compared to 2017,
2. Portion of The Medical City claims (incurred in previous years) confirmed for payment was paid in 2018,
3. Additional expenses for relocation of MiCare's office were paid in FY2018, and,
4. Actuarial Study was done in 2018.

Investment decreased by $3,075 compared to 2017. Premium receivables for 2018 decreased by $54,384. Accounts receivable, net, decreased in 2018 by $24,474. A significant percentage of accounts receivable represents patient share on incurred hospital costs.

Noncurrent assets comprised the Plan's property and equipment, net of accumulated depreciation. The noncurrent assets decreased due to impairment of $323,000 for the Automated Billing System that was never in full operation since the date of acquisition. For additional information concerning capital assets, please see Note 5 to the financial statements.

Current liabilities of $3,765,567 decreased by $1,519,289, or 29%, in 2018 from $5,284,856 in 2017. Table 2 below gives a breakdown of what comprised the total liabilities as of September 30, 2018:

Table 2: Breakdown of Liabilities as of 09/30/18 for MiCare Health Insurance Plan

Incurred medical bills reported unpaid as of 09/30/18	**$ 3,625,541**
Incurred Bills Not Reported as of 09/30/18	
Genesis Clinic (Out-Patient)	$ 722,587
Genesis Hospital (In-Patient)	174,495
Genesis Dental	20,288
Berysin Community Health Center	14,239
Caroline Dental & Pharmacy	6,660
Kaselehlie Dental	9,775
Medpharm	30,707
Pohnpei Family Health Clinic	28,834
Family Clinic & Pharmacy	5,107
Pohnpei State Hospital	637,225
Kosrae State Hospital	62,695
Chuuk State Hospital	24,049
Yap State Hospital	69,603
Total On-island Claims IBNR as of 09/30/18	**1,806,264**
Total Off-island Claims Hawaii/Guam/Others	360,913
Total Off-island Claims Manila	766,014
Off-island Claims for previous years	792,350
Total Incurred Bills Not Reported as of 09/30/18	**3,725,541**
Other Payables_Administration	**40,026**
Total Liabilities as of 09-30-18	***$ 3,765,567***

The net position for the year 2018 decreased by ($448,057) leaving a net deficiency of ($1,519,999).

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.

The following table summarizes the financial operations of MiCare Plan for the years ended September 30, 2018, 2017, 2016, 2015, and 2014:

Table 3: Summary of Financial Operations of MiCare Health Insurance Plan

	2018	2017	2016	2015	2014
Operating revenues	$ 6,332,553	$ 6,420,104	$ 6,307,516	$ 5,941,554	$ 5,902,466
Operating expenses	7,721,913	7,617,916	7,221,635	6,369,124	5,945,521
Net operating loss	(1,389,360)	(1,197,812)	(914,119)	(427,570)	(43,055)
Non-operating revenues	941,303	503,665	96,519	97,793	107,111
Decrease in net position	(448,057)	(694,147)	(817,600)	(329,777)	64,056
Net position at beginning of year	(1,143,942)	(449,795)	367,805	697,582	633,526
Net position at end of year	$ (1,591,999)	$ (1,143,942)	$ (449,795)	$ 367,805	$ 697,582

In fiscal year 2018, the gross operating revenue collection was $6,332,553 (total revenue of $6,453,841 less uncollectible accounts of $121,288).

Table 4: Comparison of gross operating revenue for 2018, 2017, 2016, 2015, and 2014

	2018	2017	2016	2015	2014
Insurance Premium	$ 6,452,576	$ 6,431,567	$ 6,413,857	$ 6,014,799	$ 5,985,477
Miscellaneous	1,265	15,756	3,007	37,905	5,160
	$ 6,453,841	$ 6,447,323	$ 6,416,864	$ 6,052,704	$ 5,990,637

Table 5 below indicates health premium and extended pharmacy premium by state (both private and public) and national agencies (FSM National Government).

Table 5: Breakdown of premium collection by State and National in FY2018

Premium Revenue for Fiscal Year 2018

	Pohnpei State	Kosrae State	Chuuk State	Yap State	National Agencies	Overseas	Total Premium
Health Insurance Premium	$ 4,290,685	$ 652,908	$ 247,026	$ 508,188	$ 704,161	$ 12,014	$ 6,414,982
Extended Pharmacy	31,994	800	400	4,200	-	200	37,594
	$ 4,322,679	$ 653,708	$ 247,426	$ 512,388	$ 704,161	$ 12,214	$ 6,452,576

Of the total amount of health premium in fiscal year 2018, Pohnpei State had the highest premium contribution to the Plan, from which the Plan collected $4,322,679 (66.99%); followed by National $704,161 (10.91%); Kosrae State $653,708 (10.13%); Yap State $512,388 (7.94%); and, Chuuk State $247,426 (3.83%). Premium for each State represents premium received from State government, agencies, private business and individual accounts.

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 $37,594. Pohnpei has the highest members under the extended pharmacy coverage followed by Yap, Kosrae, Chuuk and Overseas Employees.

Total operating expenses for fiscal year 2018 increased by 1.37% to $7,721,913 compared to $7,617,916 of 2017. Medical claims and administrative expenses are the two major types of operating expenses of the Plan.

Table 6: Comparison of operating expenses for 2018, 2017, 2016, 2015, and 2014

Operating Expenses	2018	2017	2016	2015	2014
Medical Claims	$ 7,097,407	$ 7,137,451	$ 6,591,273	$ 5,815,946	$ 5,359,221
Administration	624,506	480,465	630,362	553,178	586,300
	$ 7,721,913	$ 7,617,916	$ 7,221,635	$ 6,369,124	$ 5,945,521

Medical expenses of $7,097,407 in fiscal year 2018 decreased by $40,044 (0.56%) compared 2017. The following table below indicates the medical expenses by type of claims for fiscal year 2018.

Table 7: Breakdown of cost associated to medical services/non-medical services

	Offisland Claims	Airfare	Chronic Medicine	Shipment of Remains	Stipend /Visa	Capitation	Onisland Claims	Total Medical Expenses
Pohnpei	$ 2,409,248	$ 213,587	$ 89,006	$ 11,482	$ 5,604	$ 1,261,672	$ 1,816,147	$ 5,806,746
Kosrae	152,064	37,639	2,653	-	2,760	205,866	-	400,982
Chuuk	147,306	12,344	8,082	-	-	78,269	1,087	247,088
Yap	337,096	67,535	798	-	869	169,234	-	575,532
Overseas	64,845	-	2,214	-	-	-	-	67,059
	$ 3,110,559	$ 331,105	$ 102,753	$ 11,482	$ 9,233	$ 1,715,041	$ 1,817,234	$ 7,097,407

Net administrative expenses for 2018 was $624,506. Of the total administrative expenses, $80,000 was for actuarial and medical studies done in 2018 (funding from Congress Appropriation), and $544,506 (15% less than the approved budget of $640,254) for actual administrative cost incurred.

Management's Discussion and Analysis for the fiscal year ended September 30, 2017 is set forth in the MiCare Plan's report on the audit of financial statements, which is dated June 29, 2018. That Discussion and Analysis explains the major factors impacting the 2017 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.

2019 & Beyond Outlook

MiCare is optimistic about 2019 outlook. In Fiscal Year 2018, if not for Deloitte's recommendation to expense the cost of the ABS, MiCare would have realized a positive net change. In any case, the direction going forward can be found in MiCare 2019-2023 Strategic Plan which will be available on the website www.micareplan.fm. MiCare has already begun implementing activities to cut medical expenses, where possible and without disrupting covered services, and sought approaches to increase revenue by way of requesting financial assistance from the FSM Government and increasing premiums. Additionally, the Board of Directors resolved for management to undertake a study to explore other plan options for the purpose of providing members various options and sustaining the Plan. Implementation of the study recommendations are expected to be rolled out in 2020. For any questions or clarification, please contact MiCare office by telephone (691) 320-2549 or email info@micareplan.fm.

This Management's Discussion and Analysis is designed to provide a general overview of the Plan's financial condition and performance. Questions concerning any of the information provided in this discussion and analysis or requests of information should be address to the Plan Administrator, Micare Plan, P.O. Box 2156, Kolonia, Pohnpei, FM 96941.

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN
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Statements of Net Position
September 30, 2018 and 2017

ASSETS	2018	2017
Current assets:		
Cash and cash equivalents	$ 415,313	$ 1,968,401
Investments	1,097,898	1,100,973
Premiums receivable	308,650	363,034
Receivable from FSM National Government	73,055	73,055
Accounts receivable, net	4,123	28,597
Total current assets	1,899,039	3,534,060
Capital assets:		
Nondepreciable capital assets, net of impairment	-	323,000
Capital assets, net of accumulated depreciation	2,636	14,695
	2,636	337,695
Deposits with service providers	271,893	269,159
Total assets	$ 2,173,568	$ 4,140,914
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable - medical claims	$ 3,725,541	$ 5,220,343
Accounts payable - other	40,026	64,513
Total liabilities	3,765,567	5,284,856
Commitments and contingencies		
Net position:		
Net investment in capital assets	2,636	337,695
Unrestricted	(1,594,635)	(1,481,637)
Total net position	(1,591,999)	(1,143,942)
Total liabilities and net position	$ 2,173,568	$ 4,140,914

See accompanying notes to financial statements.

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Operating revenues:		
Insurance premiums	$ 6,452,576	$ 6,431,567
Miscellaneous	1,265	15,756
	6,453,841	6,447,323
Less uncollectible accounts	(121,288)	(27,219)
Net operating revenues	6,332,553	6,420,104
Operating expenses:		
Medical claims	7,097,407	7,137,451
Personnel services	316,360	344,158
Contractual services	123,523	10,674
Travel	62,918	28,226
Rent	52,036	25,642
Utilities	14,302	14,107
Communications	14,199	14,150
Depreciation	12,059	16,244
Supplies	11,579	11,982
Repairs and maintenance	3,420	4,239
Printing	2,773	3,892
Insurance	848	1,073
Miscellaneous	10,489	6,078
Net operating expenses	7,721,913	7,617,916
Loss from operations	(1,389,360)	(1,197,812)
Non-operating revenues (expenses):		
Contribution from FSM National Government	670,384	500,000
Recovery of medical claims	593,816	-
Other revenues	3,178	1,434
Net (decrease) increase in the fair value of investments	(3,075)	2,231
Impairment loss on nondepreciable capital assets	(323,000)	-
Total net non-operating revenues	941,303	503,665
Change in net position	(448,057)	(694,147)
Net position at beginning of year	(1,143,942)	(449,795)
Net position at end of year	$ (1,591,999)	$ (1,143,942)

See accompanying notes to financial statements.

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)

Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Premiums received	$ 6,411,411	$ 6,234,771
Medical claims and benefits paid	(7,998,393)	(4,933,167)
Cash paid to suppliers and employees	(639,668)	(324,223)
Net cash (used in) provided by operating activities	(2,226,650)	977,381
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	-	(6,014)
Cash flows from investing activities:		
Net purchases, sales and maturities of investments	(15,235)	(10,952)
Interest and dividends received	18,413	12,386
Net cash provided by investing activities	3,178	1,434
Cash flows from noncapital financing activities:		
Contribution from the FSM National Government	670,384	500,000
Net change in cash and cash equivalents	(1,553,088)	1,472,801
Cash and cash equivalents at beginning of year	1,968,401	495,600
Cash and cash equivalents at end of year	$ 415,313	$ 1,968,401
Reconciliation of loss from operations to net cash (used in) provided by operating activities:		
Loss from operations	$ (1,389,360)	$ (1,197,812)
Adjustment to reconcile loss from operations to net cash (used in) provided by operating activities:		
Depreciation	12,059	16,244
Bad debts	121,288	27,219
(Increase) decrease in assets:		
Net (decrease) increase in the fair value of investments	54,384	(175,816)
Accounts receivable	(96,814)	(36,736)
Deposits with service providers	(2,734)	119,282
Increase (decrease) in liabilities:		
Accounts payable - medical claims	(900,986)	2,204,284
Accounts payable - other	(24,487)	20,716
Net cash (used in) provided by operating activities	$ (2,226,650)	$ 977,381

See accompanying notes to financial statements.

FSM NATIONAL GOVERNMENT EMPLOYEES' HEALTH INSURANCE PLAN
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Statements of Cash Flows, Continued
Years Ended September 30, 2018 and 2017

	2018	2017
Noncash operating activities:		
Accounts payable - medical claims	$ 593,816	$ -
Reversal of medical claims	(593,816)	-
	$ -	$ -
Noncash capital and related financing acitivities:		
Impairment loss on nondepreciable capital assets	$ 323,000	$ -
Allowance for impairment loss	(323,000)	-
	$ -	$ -

See accompanying notes to financial statements.

(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. The purpose of the Plan is to provide, arrange for, pay for, or reimburse the costs of medical, dental and vision treatment and care, hospitalization, surgery, prescription drugs, medicine, prosthetic appliances, out-patient care, and other medical care benefits, in cash or the equivalent in medicines and supplies.

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

(2) Summary of Significant Accounting Policies

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

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

To conform to the requirements of GASB Statement No. 34, 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.
- 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.

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.

(2) Summary of Significant Accounting Policies, Continued

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

Revenue Recognition

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

Cash and Cash Equivalents

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

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.

Premiums and Accounts Receivable

Premiums receivable are primarily due from the FSM National Government and its four States. 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 expense.

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.

(2) Summary of Significant Accounting Policies, Continued

Fixed Assets

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

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 represents 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.

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.

New Accounting Standards

During fiscal year 2018, the Plan implemented the following pronouncements:

- GASB 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.

- GASB 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61,* which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect 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, 2018 and 2017, the carrying amount of the Plan's total cash and cash equivalents was $415,313 and $1,968,401, respectively, and the corresponding bank balance was $601,773 and $2,047,395, respectively, which is primarily maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018 and 2017, bank deposits in the amount of $250,000 for both years 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, 2018 and 2017.

(3) Deposits and Investments, Continued

B. Investments:

As of September 30, 2018 and 2017, investments are as follows:

	2018	2017
Fixed income securities:		
Domestic fixed income	$ 1,081,780	$ 1,072,260
Other investments:		
Money market funds	16,118	28,713
	$ 1,097,898	$ 1,100,973

As of September 30, 2018, the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	5 to 10 Years	Fair Value
U.S. Treasury obligations	AAA	$ 318,517	$ 374,465	$ 70,619	$ 763,601
U.S. Government agencies obligations	AAA	-	19,564	-	19,564
Corporate bonds	Aaa	-	1,980	-	1,980
Corporate bonds	Aa	22,930	60,943	5,677	89,550
Corporate bonds	A	38,900	126,286	7,585	172,771
Corporate bonds	Baa	3,995	25,461	4,858	34,314
		$ 384,342	$ 608,699	$ 88,739	$ 1,081,780

As of September 30, 2017, the Plan's fixed income securities had the following maturities:

	Moody's Credit Rating	Less Than 1 Year	1 to 5 Years	5 to 10 Years	Fair Value
U.S. Treasury obligations	AAA	$ 154,880	$ 476,799	$ 49,211	$ 680,890
U.S. Government agencies obligations	AAA	24,936	19,891	-	44,827
Corporate bonds	Aaa	5,987	10,056	-	16,043
Corporate bonds	Aa	8,003	52,983	1,992	62,978
Corporate bonds	A	11,991	175,205	3,927	191,123
Corporate bonds	Baa	35,052	39,364	1,983	76,399
		$ 240,849	$ 774,298	$ 57,113	$ 1,072,260

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Plan will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Plan's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the Plan's name by the Plan's custodial financial institution at September 30, 2018 and 2017.

(3) Deposits and Investments, Continued

B. Investments, Continued:

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, 2018, no investments in any one issuer 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, 2018 and 2017:

		Fair Value Measurements Using		
	September 30, 2018	Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income securities	$ 1,081,780	$ -	$ 1,081,780	$ -
Investments measured at amortized cost:				
Money market funds	16,118			
	$ 1,097,898			

		Fair Value Measurements Using		
	September 30, 2017	Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income securities	$ 1,072,260	$ -	$ 1,072,260	$ -
Investments measured at amortized cost:				
Money market funds	28,713			
	$ 1,100,973			

(4) Accounts Receivable

A summary of accounts receivable at September 30, 2018 and 2017 is as follows:

	2018	2017
Accounts receivable	$ 619,372	$ 522,558
Allowance for doubtful accounts	(615,249)	(493,961)
	$ 4,123	$ 28,597

(5) Fixed Assets

Capital asset activities for the years ended September 30, 2018 and 2017, are as follows:

	Balance October 1, 2017	Additions	Deletions	Balance September 30, 2018
Depreciable assets:				
Office furniture, fixtures and equipment	$ 135,142	$ -	$ -	$ 135,142
Vehicles	46,352	-	(3,607)	42,745
	181,494	-	(3,607)	177,887
Less accumulated depreciation	(166,799)	(12,059)	3,607	(175,251)
	14,695	(12,059)	-	2,636
Non-depreciable assets:				
Construction in progress	323,000	-	-	323,000
Less allowance for impairment loss	-	(323,000)	-	(323,000)
Capital assets, net	$ 337,695	$ (335,059)	$ -	$ 2,636

	Balance October 1, 2016	Additions	Deletions	Balance September 30, 2017
Depreciable assets:				
Office furniture, fixtures and equipment	$ 135,142	$ -	$ -	$ 135,142
Vehicles	40,338	6,014	-	46,352
	175,480	6,014	-	181,494
Less accumulated depreciation	(150,555)	(16,244)	-	(166,799)
	24,925	(10,230)	-	14,695
Non-depreciable assets:				
Construction in progress	323,000	-	-	323,000
Capital assets, net	$ 347,925	$ (10,230)	$ -	$ 337,695

During the year ended September 30, 2018, an impairment analysis was performed by the Plan for construction-in-progress and determined that the related asset was impaired. The Plan recorded an allowance for impairment loss of $323,000.

(6) Commitments and Contingencies

Litigation

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

Self Insurance

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

Lease Commitments

The Plan has an operating lease as of September 30, 2018 for for the main office in Pohnpei with a 5-year term expiring on February 28, 2023. The lease has an option allowing the Plan to renew the lease upon expiration of the current term. It is likely that this option will be utilized by the Plan and the leases renewed. The future minimum lease payments are as follows:

Year Ending September 30,	Total
2019	$ 32,076
2020	32,076
2021	32,076
2022	32,076
2023	13,365
	$ 141,669

Going Concern

The accompanying 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, 2018, the Plan has a negative current ratio. Furthermore, at September 30, 2018, a deficit unrestricted net position of $1,594,635 exists.

Management believes actions presently being undertaken are sufficient to improve the Plan's operating requirements in the implementation of a "5-year Strategic Plan 2019-2023", which established specific objectives up to year 2023. The goal of the strategic plan is to strengthen the Plan's financial solvency and operational efficiency, and increase enrollment of the Plan.

(6) Commitments and Contingencies, Continued

Disputed Payables

The Plan has not recorded certain disputed payables to a local service provider estimated at $258,934 as of September 30, 2018. The accompanying financial statements do not reflect adjustments, if any, that may result from ultimate resolution of this liability. During the year ended September 30, 2018 the Plan has written off certain disputed payables to an off-island service provider in the amount of $593,816.

(7) Related Parties

During the years ended September 30, 2018 and 2017, the Congress of the FSM National Government (FSMNG) appropriated $670,384 and $500,000, respectively, to the Plan for the purpose of partially paying outstanding accounts payable of the Plan, of which $73,055 remain uncollected as of September 30, 2018 and 2017. The $73,055 receivable at September 30, 2018 and 2017 is being disputed and collection is dependent upon completion of a reconciliation between the Plan and the FSMNG. The accompanying financial statements do not reflect any adjustments that may result that may impact the recoverability of this asset.

(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, 2018 and 2017, the Plan incurred an expense of $10,705 and $10,468, respectively, for matching contributions. As of September 30, 2018 and 2017, retirement plan assets were $81,387 and $66,175, respectively. Management is of the opinion that the retirement plan assets do not represent an asset of the Plan, as such, balances are not recorded in the accompanying financial statements.

(9) Subsequent Event

Public Law 20-72, MiCare Health Insurance Plan Act of 1984, which amended title 52 of the Code of Federated States of Micronesia, to (1) realign the name of the Plan to “MiCare Health Insurance Plan”, and (2) clarify the roles of the Administrator and expand the eligibility requirements, was enacted in February 2018.

On March 21, 2019, the Federated States of Micronesia Office of the Registrar of Corporations approved the adopted changes to the MiCare regulations which become effective April 1, 2019. The adoptive changes are (1) Name of the Plan changed to “MiCare Health Insurance Plan”, and (2) a one dollar increase to the premium.

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

The Board of Directors
FSM National Government Employees' 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 the FSM National Government Employees' Health Insurance Plan (the Plan), which comprise the statement of net position as September 30, 2018, 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 June 27, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2018-001, that we consider to be material weaknesses.

Deloitte.

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 the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Plan's Response to Findings

The Plan's response to the findings identified in our audit is described in the accompanying corrective action plan. The Plan's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Deloitte & Touche LLP

June 27, 2019

Finding No.: 2018-001

Healthcare Information Management Systems

Criteria: Sufficient training should be in place in relation to Heathcare Information Management Systems implementation.

Condition: On September 2015, MiCare entered into a Healthcare Information Management Systems (HIMS) Agreement with the vendor at a total cost of $323,000. It appears that insufficient training took place in relation to the HIMS implementation which may have contributed to the system breakdown. As of September 30, 2018, the system was recorded as Construction-in-Progress (CIP) pending management determination and resolution of the matter. During the year ended September 30, 2018, an impairment analysis was performed and an allowance for impairment loss of $323,000 was recorded.

Cause: Since we did not review the system, the cause of this matter is unknown.

Effect: The effect of the above condition is an impairment charge incurred in procuring the HIMS.

Recommendation: We recommend that management assess the recoverability and resolution of the matter.

Identification as a Repeat Finding: Finding 2016-001

Auditee Response and Corrective Action Plan: The automated billing system issue is still awaiting action from FSMNG DOJ.