

CHUUK STATE HEALTH CARE PLAN

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2004

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Chuuk State Health Care Plan

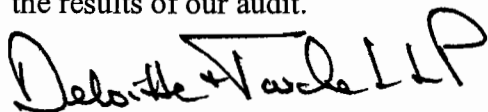
We have audited the accompanying statement of net assets of the Chuuk State Health Care Plan (the "Plan"), a component unit of the State of Chuuk, as of September 30, 2004 and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements, present fairly, in all material respects, the financial position of the Chuuk Health Care Plan as of September 30, 2004, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Chuuk Health Care Plan's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2006, on our consideration of the Chuuk Health Care Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



May 15, 2006

CHUUK STATE HEALTH CARE PLAN

Management's Discussion and Analysis Year Ended September 30, 2004

This analysis, prepared by the management of the Chuuk State Health Care Plan (the "Plan"), offers readers a narrative overview of the activities of the Plan for the fiscal year ended September 30, 2004. We encourage readers to consider this information in conjunction with the Plan's financial statements, which follow. This information is required by the Governmental Accounting Standards Board, (GASB), which provides guidelines on what must be included and excluded from the analysis.

Because the Plan only commenced its formal operations in September 2003, this is the first fiscal year that audited financial statements have been presented. Consequently, much of the information is not comparable to prior fiscal years when Plan activities were under the Chuuk State government. Beginning in fiscal year 2005, comparative data will be provided and be more meaningful and go further towards explaining the Plan's financial position and results of operations.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

Financial Highlights

- For the fiscal year ended September 30, 2004, the Chuuk State Health Care Plan increased its net assets by \$446 thousand (up 302%) from \$147 thousand at the beginning of the year, to \$593 thousand at the end of the year. The increase is primarily attributable to Plan premiums exceeding payments for medical claims.
- Total claim payments of \$188 thousand were only 25% of total Plan premiums of \$740 thousand, reflecting the Plan's control of medical claim expenditures.
- During fiscal year 2004, the Plan's total revenues of \$742 thousand exceeded its total expenses of \$296 thousand, resulting in net earnings of \$446 thousand.

The Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the Plan as of the fiscal year end. The Statement of Net Assets is a "snapshot" financial statement. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent assets and liabilities will be discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the Plan. They are also able to determine how much the Plan owes vendors and others. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) that the Plan has available for future expenditures by the Plan.

Net assets are divided into two major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant and equipment owned by the Plan. The next asset category is restricted assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted assets is only available for investment purposes; the Plan has no nonexpendable restricted assets. Expendable restricted net assets are available for expenditures by the Plan but must be spent for purposes determined by donors and/or external entities that have place, time or purpose restrictions on the use of the assets. All the Plan assets that are not otherwise invested in capital assets are restricted by law to be used for health care services.

CHUUK STATE HEALTH CARE PLAN

Management's Discussion and Analysis
Year Ended September 30, 2004

Summary Statement of Net Assets (In '000's)

ASSETS:	
Current assets	\$ 586
Capital assets, net	<u>19</u>
Total assets	<u>\$ 605</u>
LIABILITIES:	
Current liabilities	\$ 12
Non-current liabilities	<u>-</u>
Total liabilities	<u>12</u>
Net assets:	
Invested in capital assets	19
Restricted	<u>574</u>
Total net assets	<u>593</u>
Total liabilities and net assets	<u>\$ 605</u>

The total assets at the end of the year of \$605 thousand exceed the total liabilities of \$12 thousand, resulting in net assets of \$593 thousand. Of the total net assets, \$552 thousand (or 93%) are held in cash or cash equivalents, indicating the ability of the Plan to readily meet any liabilities it may incur. Moreover, the 48:1 ratio of current assets to current liabilities further demonstrates the liquidity of the Plan's financial position. The Plan's low level of liabilities reflects management's policy of paying for medical claims and other operating expenses immediately upon receipt of provider or vendor invoices.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the Plan, both operating and non-operating, and the expenses paid by the institution, operating and non-operating.

Generally speaking, operating revenues are received from income provided by collecting health care premiums from Plan members. Other non-operating revenues are for interest income earning from short-term investments of Plan assets. Operating expenses can be classified as of two types: (i) medical service expenditures provided to eligible enrollees by accredited health care providers, and (ii) other operating expenses necessary to administer the Plan.

CHUUK STATE HEALTH CARE PLAN

Management's Discussion and Analysis
Year Ended September 30, 2004

Summary Statement of Revenues, Expenses, and Changes in Net Assets (In '000's)

Revenues:	
Premiums	\$ 740
Other Revenues	<u>2</u>
Total revenues	<u>742</u>
Expenses:	
Claims expenses	\$ 188
Other operating expenses	<u>108</u>
Total expenses	<u>296</u>
Net earnings	446
Net assets at beginning of year	<u>147</u>
Net assets at end of year	<u><u>\$ 593</u></u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an overall increase in net assets of approximately \$446 thousand. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Premium revenues represent receipts from Plan enrollees. In fiscal year 2004, \$735 thousand (or 99%) of total premium revenues of \$740 million were from eligible government employees whose health premiums represent a 50% employee share and 50% employer's share.
- During fiscal year 2004, medical claim payments of \$188 thousand were made to accredited health care providers. \$153 thousand (or 82%) was paid to local providers and \$35 thousand (or 18%) were paid to off-island providers in the Philippines.
- During fiscal year 2004, travel expenses totaling \$68 thousand were the largest component of other operating expenses. These expenses were primarily incurred by the management and board to determine the adequacy of treatment facilities in the Philippines.

CHUUK STATE HEALTH CARE PLAN

Management's Discussion and Analysis
Year Ended September 30, 2004

Statement of Cash Flows

The final statement presented by the Chuuk State Health Care Plan is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity during the year. The statement is divided into four parts. The first part deals with operating cash flows from noncapital financing activities of the Plan. The second section reflects cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The third section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fourth section reconciles the net cash used in operating activities to operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Summary Statement of Cash Flows (In '000's)

Cash provided by (used in):	
Operating activities	\$ 505
Capital and related financing activities	<u>(3)</u>
Net change in cash and cash equivalents	502
Cash and cash equivalents at beginning of year	<u>50</u>
Cash and cash equivalents at end of year	<u><u>\$ 552</u></u>

The Plan's positive cash flows in fiscal year 2005 generally reflect high retention of premiums vs. medical claims, minimal purchase of capital assets, and relatively minor interest income earned from investing premiums in low-yield, short-term investments.

Capital Asset and Debt Administration

The Plan has no debt and there are no foreseen circumstances that would affect the Plan's access to future capital financing.

Economic Outlook

Chuuk's economic outlook is heavily dependent on public sector expenditures that are presently constrained by stringent expenditure conditions on new Compact sector grants, low local revenue collections and declining Compact CIP and other federal funds. As such, the Plan's management does not anticipate large growth in either public or private sector enrollees. Although fiscal year 2004 brought in new private sector Plan members, the total premiums increased by a modest five percent. Moreover, medical claim payments are expected to increase as members become more familiar with the services provided. The Plan has not determined the impact of increased member usage but it is not expected to affect normal operating activities in the short term. Nevertheless, the management and Board remain committed to controlling costs within available resources while continuing to provide an essential level of health care for eligible members.

CHUUK STATE HEALTH CARE PLAN

Management's Discussion and Analysis
Year Ended September 30, 2004

Contacting the Chuuk State Health Care Plan's Management

This financial report is designed to provide our citizens, Plan enrollees, accredited health care providers, and other users of our financial information, a general overview of the Plan's finances to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director, Chuuk State Health Care Plan; P.O Box 1617; Weno, Chuuk; FM 96942.

CHUUK STATE HEALTH CARE PLAN

Statement of Net Assets September 30, 2004

ASSETS

Current assets:	
Cash and cash equivalents	\$ 552,486
Premiums receivable	31,334
Other receivables	1,400
Other assets	<u>600</u>
Total current assets	585,820
Property and equipment, net	<u>18,845</u>
Total assets	<u><u>\$ 604,665</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Medical claims and benefits payable	\$ 8,625
Accounts payable and accrued expenses	<u>2,944</u>
Total liabilities	<u>11,569</u>
Commitment	
Net assets:	
Invested in capital assets, net of related debt	18,845
Restricted	<u>574,251</u>
Total net assets	<u>593,096</u>
Total liabilities and net assets	<u><u>\$ 604,665</u></u>

See accompanying notes to financial statements.

CHUUK STATE HEALTH CARE PLAN

Statement of Revenues, Expenses and Changes in Net Assets Year Ended September 30, 2004

Premium and other revenues:	
Premiums	\$ 739,639
Other revenues	2,020
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Total premiums and other revenues	741,659
Benefits paid:	
Claims expenses	188,084
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	553,575
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Other operating expenses:	
Travel	67,924
Coordinator's fee	10,000
Depreciation	9,265
Office/computer supplies	7,029
Rent	3,600
Promotional	2,000
Telephone and telegraph	1,739
Board allowance	1,700
Utilities	1,650
CSHCP premium	1,293
Representation - board luncheon meeting	1,226
Miscellaneous	611
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Total other operating expenses	108,037
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Net earnings	445,538
Net assets at beginning of year	147,558
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Net assets at end of year	\$ 593,096
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See accompanying notes to financial statements.

CHUUK STATE HEALTH CARE PLAN

Statement of Cash Flows Year Ended September 30, 2004

Cash flows from operating activities:	
Premiums received	\$ 780,366
Interest income received	2,020
Medical claims and benefits paid	(179,459)
Other expenses paid	<u>(97,828)</u>
Net cash provided by operating activities	<u>505,099</u>
Cash flows from capital and related financing activities	
Acquisition of property and equipment	<u>(3,125)</u>
Net cash provided in capital and related financing activities	<u>(3,125)</u>
Net change in cash and cash equivalents	501,974
Cash and cash equivalents at beginning of year	<u>50,512</u>
Cash and cash equivalents at end of year	<u><u>\$ 552,486</u></u>
Reconciliation of net earnings to net cash provided by operating activities:	
Net earnings	\$ 445,538
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation	9,265
Changes in assets and liabilities:	
Decrease in premiums receivable	40,727
Increase in other receivables	(1,400)
Increase in other assets	(600)
Increase in medical claims and benefits payable	8,625
Increase in accounts payable and accrued expenses	<u>2,944</u>
Net cash provided by operating activities	<u><u>\$ 505,099</u></u>

See accompanying notes to financial statements.

CHUUK STATE HEALTH CARE PLAN

Notes to Financial Statements
September 30, 2004

(1) Nature of Operations and Significant Accounting Policies

Commencement of Operations

Chuuk State Health Care Plan (CSHCP) (the “Plan”), a component unit of the State of Chuuk, was originally established under the Chuuk Health Care Plan Act of 1994, providing eligible residents of Chuuk to be enrolled in the Plan. The Plan commenced its operations in September 2003 after final approval from the Board of Trustees, with Chuuk State Hospital (CSH) as the primary health care provider.

Entity’s Activities

As per Chuuk State Law No. 2-94-06 (Act No: 2-25), the Plan is dedicated to serve as a financial system to provide universal coverage of an essential level of health care for all eligible enrollees by collecting health care premiums under a plan and ensuring medical services to all members through its accredited health care providers.

Aside from its primary health provider (CSH), CSHCP also accredited two medical clinics in Chuuk – Family Clinic and Sefin Health Clinic, and three hospitals in the Philippines – Cardinal Santos Medical Center, Capitol Medical Center, and Kidney and Transplant Institute, to provide medical services to members of the plan.

The Plan enables all eligible government employees to be eligible as members by contributing health premiums (50% employee share and 50% employer’s) so as to claim medical benefits through the accredited health care providers. The plan was also introduced to the private sector and CSHCP has started collecting premiums from several private companies, and offering medical services, accordingly.

Basis of Accounting

The accounting policies of the Plan conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,” requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Plan has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

The Plan has adopted GASB Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments” (GASB 34) as amended by GASB Statement No. 37, “Basic Financial Statements – Management’s Discussion and Analysis for State and Local Governments: Omnibus” and GASB Statement No. 38, “Certain Financial Statement Disclosures” and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

CHUUK STATE HEALTH CARE PLAN

Notes to Financial Statements
September 30, 2004

(1) Nature of Operations and Significant Accounting Policies, Continued

Basis of Accounting, Continued

- Invested in capital assets, net of related debt:

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

- Nonexpendable – Net assets subject to externally imposed stipulations that require the Plan to maintain them permanently. For the year ended September 30, 2004, the Plan does not have nonexpendable net assets.
- Expendable – Net assets whose use by the Plan is subject to externally imposed stipulations that can be fulfilled by actions of the Plan pursuant to those stipulations or that expire by the passage of time.

- Unrestricted:

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

All of the Plan's net assets that are not otherwise invested in capital assets are restricted by law to be used for health care services.

Cash and Cash Equivalents

Cash and cash equivalents include cash in various bank accounts and time certificates of deposit with an original maturity date of ninety days or less. As of September 30, 2004, the carrying amount of the Plan's cash and cash equivalents was \$552,485 and the corresponding bank balance was \$561,350. Of the bank balance amount, \$447,529 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$113,821 represents deposits maintained in Philippine Peso denominated bank accounts. As of September 30, 2004, bank deposits in the amount of \$100,000 were FDIC insured. The Plan does not require collateralization of its cash deposits; therefore, deposit levels in excess of depository insurance coverage are uncollateralized.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. Depreciation is recorded under the straight-line method based on the estimated useful lives of the respective assets.

The Plan capitalizes equipment with acquisition value of \$250 and above.

Revenue Recognition

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

CHUUK STATE HEALTH CARE PLAN

Notes to Financial Statements
September 30, 2004

(1) Nature of Operations and Significant Accounting Policies, Continued

Premiums Receivable

Premiums receivable are primarily due from the Chuuk State Government.

The Plan establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

Risk Management

Chuuk State Health Care Plan carries workmen's compensation liability insurance for all employees of the Plan. Chuuk State Health Care 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.

New Accounting Standards

For fiscal year 2005, the Plan will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 establishes standards for impairment of capital assets when service utility has declined significantly and unexpectedly. The provisions of this Statement are effective for periods beginning after December 15, 2004. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of Plan.

CHUUK STATE HEALTH CARE PLAN

Notes to Financial Statements
September 30, 2004

(1) Nature of Operations and Significant Accounting Policies, Continued

New Accounting Standards, Continued

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Plan.

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 disclosures of contingent 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.

(2) Property and Equipment

A summary of the Plan's property and equipment at September 30, 2004, is as follows:

	Estimated Useful Lives	Balance at October 1, 2003	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2004
Office furniture and equipment	5 – 10 years	\$ 22,187	\$ 3,125	\$ -	\$ 25,312
Vehicle	5 years	<u>15,750</u>	<u>-</u>	<u>-</u>	<u>15,750</u>
		37,937	3,125	-	41,062
Less accumulated depreciation		(12,952)	(9,265)	-	(22,217)
Property and equipment, net		\$ <u>24,985</u>	\$ (6,140)	\$ <u>-</u>	\$ <u>18,845</u>

Of the total property and equipment as of September 30, 2004, \$38,199 was acquired through capital contributions from the Chuuk State Government.

(3) Net Assets

Net assets at September 30, 2003 consists of funds received from Chuuk State Finance in 2002 amounting to \$15,000 and premiums and other consideration received in 2003 totaling \$94,359. The Plan received premiums from Chuuk State employees prior to its formal commencement of operations as of October 1, 2003.

CHUUK STATE HEALTH CARE PLAN

Notes to Financial Statements
September 30, 2004

(4) Commitment

Lease Commitment

The Plan leases office space under an operating lease. Rental expense totaled \$7,200 for the fiscal year ended September 30, 2004, and is included as components of other operating expenses in the accompanying financial statements. At September 30, 2004, aggregate future minimum lease payments are summarized as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2005	\$ 7,200
2006	7,200
2007	<u>4,200</u>
	\$ <u>18,600</u>

(5) Related Parties

As of September 30, 2004, the Plan has outstanding advances to an employee amounting to \$1,400 and has paid medical claims and benefits totaling \$61,591 to Family Clinic and Pharmacy, whose owner is a member of the Referral committee.

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

The Board of Trustees
Chuuk State Health Care Plan

We have audited the financial statements of the Chuuk State Health Care Plan (the "Plan") as of and for the year ended September 30, 2004, and have issued our report thereon dated May 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

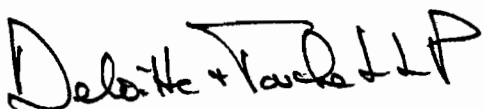
In planning and performing our audit, we considered the Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted certain matters that we reported to management of the Plan in a separate letter dated May 15, 2006.

Compliance and Other Matters

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

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



May 15, 2006