

CHUUK STATE HEALTH CARE PLAN

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Chuuk State Health Care Plan

We have audited the accompanying statements of net assets of the Chuuk State Health Care Plan (the "Plan"), a component unit of the State of Chuuk, as of September 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years 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 audits in accordance with auditing standards generally accepted in the United States of America and standards applicable for 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 audits provide a reasonable basis for our opinion.

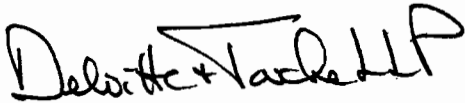
Because of inadequacies in the accounting records, we were unable to form an opinion regarding the amount at which medical claims payable are recorded in the accompanying statement of net assets at September 30, 2005. Medical claims payable enters into the determination of medical claims expense for the year ended September 30, 2005.

Because of inadequacies in the accounting records, underlying supporting documentation evidencing the validity of other operating expenses have not been maintained and were not made available for our audit. Accordingly, we were not able to satisfy ourselves about the amounts at which other operating expenses are recorded in the accompanying statement of revenues, expenses and changes in net assets for the year ended September 30, 2005.

In our opinion, except for the effects on the 2005 financial statements of such adjustments, if any, as might have been determined to be necessary had accounting records concerning medical claims payable been adequate and had accounting records supporting other operating expenses been maintained, as discussed in the third and fourth paragraphs above, such financial statements present fairly, in all material respects, the financial position of the Chuuk Health Care Plan as of September 30, 2005 and 2004, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 8 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 June 10, 2006, on our consideration of 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.

A handwritten signature in black ink, appearing to read "Deloitte + Touche LLP". The signature is stylized and written in a cursive-like font.

June 10, 2006

CHUUK STATE HEALTH CARE PLAN

Management's Discussion and Analysis Year Ended September 30, 2005

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, 2005. We encourage readers to consider this information in conjunction with the Plan's financial statements, which follow. Fiscal year 2004 comparative information has been included, where appropriate. This information is required by the Government Accounting Standards Board, (GASB), which provides guidelines on what must be included and excluded from the analysis.

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, 2005, the Chuuk State Health Care Plan increased net assets by \$0.43 million (up 73%) from \$0.59 million in the prior year to \$1.02 million. The increase is primarily attributable to increased cash and short-term investments resulting from Plan premiums exceeding payments for medical claims.
- During fiscal year 2005 the Plan had premium revenues of \$0.78 million compared to \$0.74 million in fiscal year 2004. The \$0.04 million increase (or 5.5%) was the result of new enrollees. Medical claim expenses were \$0.23 million in fiscal year 2005 compared to \$0.19 million in fiscal year 2004 (up 21.6%).
- During fiscal year 2005, the Plan's total net earnings of \$0.43 million was down \$0.02 million (or 3%) from net earnings in fiscal year 2004 of \$0.45 million.

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, 2005

SUMMARY BALANCE SHEETS (In '000's)

	<u>2005</u>	<u>2004</u>
Assets:		
Current assets	\$ 1,021	\$ 586
Capital assets, net	<u>29</u>	<u>19</u>
Total assets	<u>\$ 1,050</u>	<u>\$ 605</u>
Liabilities:		
Current liabilities	\$ 27	\$ 12
Non-current liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>27</u>	<u>12</u>
Net assets:		
Invested in capital assets	29	19
Restricted	<u>994</u>	<u>574</u>
Total net assets	<u>1,023</u>	<u>593</u>
Total liabilities and net assets	<u>\$ 1,050</u>	<u>\$ 605</u>

The total assets at the end of fiscal year 2005 of \$1,050 thousand exceed the total liabilities of \$27 thousand, resulting in net assets of \$1,023 thousand. Of the total net assets, \$973 thousand (or 93%) are held in cash, cash equivalents or short-term investments, indicating the ability of the Plan to readily meet any liabilities it may incur. Moreover, the 38: 1 ratio of current assets to current liabilities at September 30, 2005 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, 2005

SUMMARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (In '000's)

	2005	2004
REVENUES:		
Premiums	\$ 781	\$ 740
Other Revenues	14	2
Total revenues	795	742
EXPENSES:		
Claims expenses	\$ 229	\$ 188
Other operating expenses	136	108
Total expenses	365	296
Net earnings	430	446
Net assets at beginning of year	593	147
Net assets at end of year	\$ 1,023	\$ 593

The Statement of Revenues, Expenses, and Changes in Net Assets reflects positive years for both fiscal years 2005 and 2004, with overall increases in net assets equal to the amount of net earnings of approximately or \$430 and \$446 thousand, respectively. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

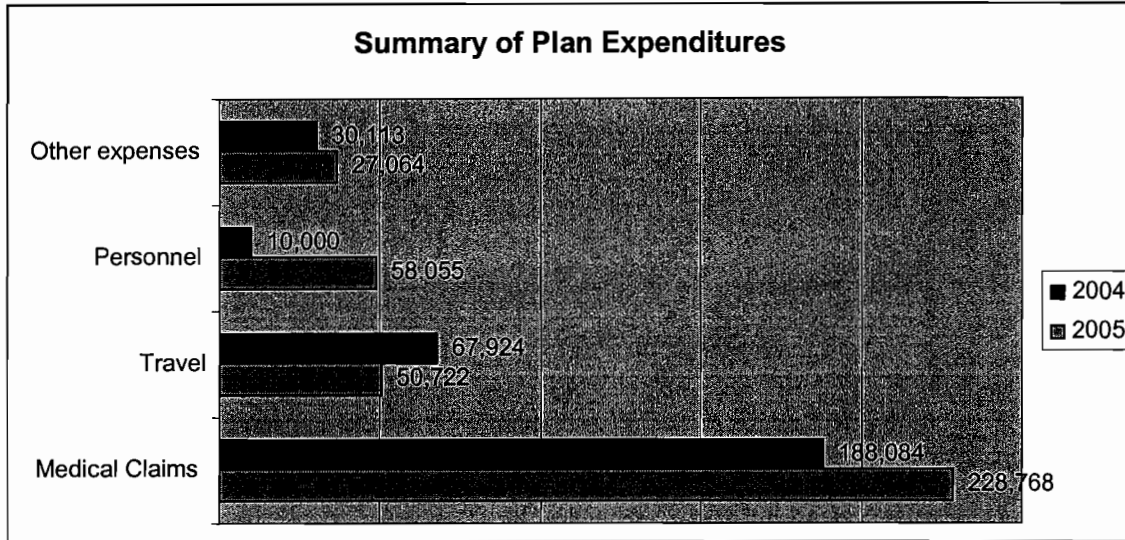
- Premium revenues represent receipts from Plan enrollees. The following table indicates premium revenue activity for the fiscal years 2005 and 2004:

	FY2005		FY2004	
	# ENROLLED	PREMIUMS PAID	# ENROLLED	PREMIUMS PAID
	@ 9-30-05	(000's)	@ 9-30-04	(000's)
Member Composition				
Public Sector	12,509	\$ 765	11,969	\$ 735
Private Sector	970	16	725	5
Totals	13,479	\$ 781	12,694	\$ 740
% Increase From Prior Year	6.18%	5.54%		

CHUUK STATE HEALTH CARE PLAN

Management's Discussion and Analysis
Year Ended September 30, 2005

- The major components of Plan expenses during fiscal year 2005 and 2004 are highlighted by the following graph:



Medical claim expenses increased \$40.7 thousand (or 21.6%) during fiscal year 2005 from fiscal year 2004, but still remain a relatively modest portion of Plan premiums. In fiscal year 2005 medical claim expenses of \$229 thousand represented 29% of premium revenues. This is comparable to fiscal year 2004, where medical claim expenses of \$188 thousand were 25% of premium revenues. These relatively low benefit pay-out ratios indicate the Plan's effective containment of medical claim costs.

Personnel expenses, comprising both salaries and coordinator fees, increased to \$58.1 thousand in fiscal year 2005 from the prior year's \$10 thousand. This 481% increase is the result of the Plan hiring one additional off-island coordinator in the Philippines and because the Plan's salaries for FY-04 were paid by the Chuuk State government and not reflected in the financial statements.

Statement of Cash Flows

The final statements 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.

CHUUK STATE HEALTH CARE PLAN

Management's Discussion and Analysis
Year Ended September 30, 2005

SUMMARY STATEMENT OF CASH FLOWS (In '000's)

	2005	2004
Cash provided by (used in):		
Operating activities	\$ 425	\$ 503
Capital and related financing activities	(18)	(3)
Investing activities	(487)	2
Net change in cash and cash equivalents	(80)	502
Cash and cash equivalents, beginning of year	552	50
Cash and Cash Equivalents, end of year	<u>\$ 472</u>	<u>\$ 552</u>

The Plan's cash and cash equivalent resources declined by \$80 thousand (or 14%) in fiscal year 2005, from \$552 thousand in the prior year to \$472 thousand. This decrease in cash resources was the result of investing in the short-term interest bearing deposits of federally insured banks that will mature within one year.

Capital Asset and Debt Administration

The Plan's investment in capital assets amounted to \$58 thousand in fiscal year 2005, net of accumulated depreciation of \$29 thousand, leaving a book value of \$29 thousand. This represents an increase of \$10 thousand (or 53%) from the \$19 thousand reported for fiscal year 2004 and is primarily attributable to the purchase of a vehicle by the Plan.

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

Further information on the Plan's capital assets can be found in note (3) to the financial statements.

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. Insofar as these constraints will inhibit hiring in the public sector and limit private sector growth, the Plan's management does not anticipate large growth in either public or private sector enrollees and related premium revenues. 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, 2005

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

Statements of Net Assets September 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents	\$ 472,260	\$ 552,486
Short-term investments	501,198	-
Premiums receivable	46,292	31,334
Other receivables	800	1,400
Other assets	1,000	600
	<hr/>	<hr/>
Total current assets	1,021,550	585,820
Property and equipment, net	29,341	18,845
	<hr/>	<hr/>
Total assets	<u>\$ 1,050,891</u>	<u>\$ 604,665</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Medical claims and benefits payable	\$ 20,024	\$ 8,625
Accounts payable and accrued expenses	7,288	2,944
	<hr/>	<hr/>
Total liabilities	27,312	11,569
Commitment		
Net assets:		
Invested in capital assets, net of related debt	29,341	18,845
Restricted	994,238	574,251
	<hr/>	<hr/>
Total net assets	1,023,579	593,096
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,050,891</u>	<u>\$ 604,665</u>

See accompanying notes to financial statements.

CHUUK STATE HEALTH CARE PLAN

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2005 and 2004

	2005	2004
Premium and other revenues:		
Premiums	\$ 781,370	\$ 739,639
Other revenues	13,772	2,020
Total premiums and other revenues	795,142	741,659
Benefits paid:		
Claims expenses	228,768	188,084
	566,374	553,575
Other operating expenses:		
Travel	50,772	67,924
Salaries, wages and other benefits	33,155	-
Coordinator's fee	24,900	10,000
Depreciation	7,297	9,265
Rent	3,600	3,600
Telephone and telegraph	2,946	1,739
Office/computer supplies	2,502	7,029
Representation - board luncheon meeting	2,379	1,226
Housing allowance	2,250	-
Board allowance	1,700	1,700
Utilities	1,609	1,650
Gasoline and fuel	1,250	-
Promotional	700	2,000
CSHCP premium	96	1,293
Miscellaneous	735	611
Total other operating expenses	135,891	108,037
Net earnings	430,483	445,538
Net assets at beginning of year	593,096	147,558
Net assets at end of year	\$ 1,023,579	\$ 593,096

See accompanying notes to financial statements.

CHUUK STATE HEALTH CARE PLAN

Statements of Cash Flows Years Ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Premiums received	\$ 766,412	\$ 780,366
Interest income received	13,772	2,020
Medical claims and benefits paid	(217,369)	(179,459)
Other expenses paid	(124,050)	(97,828)
Net cash provided by operating activities	438,765	505,099
Cash flows from capital and related financing activities		
Acquisition of property and equipment	(17,793)	(3,125)
Net cash used in capital and related financing activities	(17,793)	(3,125)
Cash flows from investing activities		
Net change in time certificates of deposit	(501,198)	-
Net cash used in by investing activities	(501,198)	-
Net change in cash and cash equivalents	(80,226)	501,974
Cash and cash equivalents at beginning of year	552,486	50,512
Cash and cash equivalents at end of year	\$ 472,260	\$ 552,486
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	\$ 430,483	\$ 445,538
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	7,297	9,265
Changes in assets and liabilities:		
(Increase) decrease in premiums receivable	(14,958)	40,727
Decrease (increase) in other receivables	600	(1,400)
Increase in other assets	(400)	(600)
Increase in medical claims and benefits payable	11,399	8,625
Increase in accounts payable and accrued expenses	4,344	2,944
Net cash provided by operating activities	\$ 438,765	\$ 505,099

CHUUK STATE HEALTH CARE PLAN

Notes to Financial Statements
September 30, 2005 and 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, 2005 and 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 years ended September 30, 2005 and 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

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Custodial 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 foreign currency risk or custodial credit risk.

Cash and cash equivalents include cash in various bank accounts and time certificates of deposits with an original maturity date of ninety days or less. Short-term investments in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2005 and 2004, the carrying amount of the Plan's cash and cash equivalents and time certificates of deposit were \$973,458 and \$552,485, respectively, and the corresponding bank balances were \$1,192,288 and \$561,350, respectively. Of the bank balance amounts, \$945,032 and \$447,529, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$247,256 and \$113,821, respectively, represent deposits maintained in Philippine Peso denominated bank accounts. Accordingly, these deposits are exposed to foreign currency risk. As of September 30, 2005 and 2004, bank deposits in the amount of \$200,000 and \$100,000, respectively, were FDIC insured. The Plan does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

CHUUK STATE HEALTH CARE PLAN

Notes to Financial Statements
September 30, 2005 and 2004

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

Short-term Investments

Interest-bearing deposits in banks mature within one year and are carried at cost.

Property and Equipment

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

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.

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, expenditures and expenses during the reporting period. Actual results may differ from those estimates.

New Accounting Standards

During fiscal year 2005, the Plan implemented 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.

CHUUK STATE HEALTH CARE PLAN

Notes to Financial Statements
September 30, 2005 and 2004

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

New Accounting Standards, Continued

For fiscal year 2006, the Plan will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1* and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. 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. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. Management does not believe that the implementation of these statements 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 July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment 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.

In December 2004, GASB issued Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by cost-Sharing Employers*. GASB Technical Bulletin No. 2004-2 clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers. Management does not believe the implementation of this pronouncement will have a material effect on the financial statements of the Plan.

(2) Short-term Investments

The Plan has various time deposits with a federally insured bank totaling \$501,198 as of September 30, 2005. These deposits have initial maturity dates of one year and have interest rates ranging from 2.33% to 3.41%.

CHUUK STATE HEALTH CARE PLAN

Notes to Financial Statements
September 30, 2005 and 2004

(3) Property and Equipment

A summary of the Plan's property and equipment at September 30, 2005 and 2004, is as follows:

	Estimated Useful Lives	Balance at October 1, 2004	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2005
Office furniture and equipment	5 – 10 years	\$ 25,312	\$ 1,885	\$ -	\$ 27,195
Vehicle	5 years	<u>15,750</u>	<u>15,910</u>	<u>-</u>	<u>31,660</u>
		41,062	17,793	-	58,855
Less accumulated depreciation		<u>(22,217)</u>	<u>(7,297)</u>	<u>-</u>	<u>(29,514)</u>
Property and equipment, net		\$ <u>18,845</u>	\$ <u>10,496</u>	\$ <u>-</u>	\$ <u>29,341</u>
	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		<u>(12,952)</u>	<u>(9,265)</u>	<u>-</u>	<u>(22,217)</u>
Property and equipment, net		\$ <u>24,985</u>	\$ <u>(6,140)</u>	\$ <u>-</u>	\$ <u>18,845</u>

Of the total property and equipment as of September 30, 2005, \$38,199 was acquired through capital contributions from the Chuuk State Government.

(4) Net Assets

Net assets at September 30, 2005 includes 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.

(5) Commitment

Lease Commitment

The Plan leases office space under an operating lease. Rental expense totaled \$7,200 for the fiscal years ended September 30, 2005 and 2004, and is included as components of other operating expenses in the accompanying financial statements. At September 30, 2005, aggregate future minimum lease payments are summarized as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2006	\$ 7,200
2007	<u>4,200</u>
	\$ <u>11,400</u>

CHUUK STATE HEALTH CARE PLAN

Notes to Financial Statements
September 30, 2005 and 2004

(6) Related Parties

The Plan has outstanding advances to an employee amounting to \$800 and \$1,400 at September 30, 2005 and 2004, respectively. It has also paid medical claims and benefits totaling \$13,702 and \$61,591 at September 30, 2005 and 2004, respectively, 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, 2005, and have issued our report thereon dated June 10, 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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Plan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings (page 20) as item 2005-1.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to management of the Plan in a separate letter dated June 10, 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 grants, 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 for the information of the Plan's management and is not intended to be, and should not be, used by anyone other than those specified parties.

Deloitte Touche LLP

June 10, 2006

CHUUK STATE HEALTH CARE PLAN

Schedule of Findings
Year Ended September 30, 2005

Finding 2005-01 - Reiteration of 2004 Audit Findings

Criteria: Adequate accounting assistance should be procured to maintain books and records in accordance with accounting principles generally accepted in the United States of America.

Condition: During the 2005 audit, we noted that the following conditions and other control weaknesses that were previously identified still exist and have remained uncorrected in 2005 (refer to 2004 Management letter dated May 15, 2006):

- Absence of formal accounting system
- No check signing authority limits
- Absence of fixed asset capitalization policy
- Absence of written policy on granting and liquidation of travel allowances

Cause: The cause of this condition is that inadequate accounting assistance was provided the Plan during the year.

Effect: The effect of this condition is noncompliance with the criteria.

Recommendation: We recommend that corrective action be taken to address these deficiencies. We also reiterate the need to hire a competent accountant

Auditee Response and Corrective Action Plan: We agree with the finding and most of the recommendations. In July 2006 a newly hired controller will begin work at the Plan. One of her first duties will be to implement accounting software and formalize accounting policies and procedures among which will be i) a fixed asset capitalization threshold of \$1,000, and ii) travel advance procedures that will define when advances are authorized, the approved per diem and other expense limits and post-travel requirements for liquidating allowances. Plan management believes the current dual signatory policy for check signing, i.e. having the Director and Board Chairman (or authorized designees) sign checks is sufficient internal control over check signing.