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June 20, 2011

The Board of Trustees
Chuuk State Health Care Plan

Dear Members of the Board:

We have performed an audit of the financial statements of the Chuuk State Health Care Plan (the Plan) as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 20, 2011.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Plan is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated October 14, 2010. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation of the Plan's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2010 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and
- To report on the Plan's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2010 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of their responsibilities.

We considered the Plan's 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 do not express an opinion on the effectiveness of the Plan's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Plan's 2010 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2010, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Plan's financial reporting process. Such proposed adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2010 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Plan's significant accounting policies are set forth in Note 2 to the Plan's 2010 financial statements. During the year ended September 30, 2010, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Plan:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Plan.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Plan.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

Critical accounting policies are those that are both most important to the portrayal of the Plan's financial condition and results and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Plan has not identified any critical accounting policies or practices.

ALTERNATE ACCOUNTING TREATMENTS

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended September 30, 2010.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Plan's 2010 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in the Plan's 2010 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Plan's 2010 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2010.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Plan's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Plan is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix II, a copy of the representation letter we obtained from management.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions were held or were the subject of correspondence with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Plan's management and staff and had unrestricted access to the Plan's senior management in the performance of our audit.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 20, 2011, wherein no matters involving the Plan's internal control over financial reporting were considered to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported. We have also issued a separate management letter report to the management of the Plan, also dated June 20, 2011, on specific aspects of the internal control over financial reporting.

* * * * * * * * *

This report is intended solely for the information and use of the Board of Trustees, management, and others within the organization, and the Office of the FSM National Public Auditor and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the staff and management of the Plan for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

Summary of Corrected Misstatements

Description of Misstatement	Assets		Liabilities		Equity		Income		TOTAL
AJE <1>									
(Dr) Office furniture and fixtures	12,878.34								12,878.34
(Dr) Premium receivable	46,942.33								46,942.33
(Dr) Other assets	743.00								743.00
(Dr) Invested in fixed assets	575.02								575.02
(Cr) Accmulated depreciation		743.46							-743.46
(Cr) Computer equipment		12,709.90							-12,709.90
(Cr) Allowance for premium loss		47,110.32							-47,110.32
(Cr) Restricted capital		575.01							-575.01
AJE <2>									
(Dr) Computer equipment	12,709.90								12,709.90
(Cr) Office furniture and fixtures		12,709.90							-12,709.90
AJE <3>									
(Dr) Office furniture and fixtures	167.56								167.56
(Dr) Depreciation expense							2,624.78		2,624.78
(Cr) Accumulated depreciation		2,216.66							-2,216.66
(Cr) Miscellaneous expense								575.68	-575.68
AJE <4>									
(Dr) Salaries							1,073.98		1,073.98
(Dr) SS and HC contributions							96.96		96.96
(Cr) Withholding income tax payable				977.02					-977.02
(Cr) SS tax payable				193.92					-193.92
AJE <5>									
(Dr) Medical bills and stipend							11,649.40		11,649.40
(Cr) Medical claims payable				11,649.40					-11,649.40
Total Misstatements Adjusted	74,016.15	76,065.25	0.00	12,820.34	0.00	0.00	15,445.12	575.68	0.00

The above corrected misstatements do not represent fraud or illegal acts. Rather, such represent misstatements.

Kaisom Enlet
Executive Director

CHUUK STATE HEALTH CARE PLAN

P.O. BOX 1679

WENO, CHUUK STATE, FSM 96942

PHONE NO. (691) 330-5474
FAX NO. (691) 330-5473

June 20, 2011

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

We are providing this letter in connection with your audits of the statements of net assets of the Chuuk State Health Care Plan (the Plan) as of September 30, 2010 and 2009 (a component unit of the State of Chuuk) and the related statements of revenues, expenses and changes in net assets and cash flows, for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial positions, and results of operations and/or changes in fund balances and/or cash flows of the Plan in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

a. The fair presentation in the financial statements of net assets, revenues, expenses and changes in net assets cash flows in conformity with accounting principles generally accepted in the United States of America.

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the basic financial statements that are presented for the purpose of additional analysis for the basic financial statements.

c. The design and implementation of programs and controls to prevent and detect fraud.

d. Establishing and maintaining effective internal control over financial reporting.

e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business type activities obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The Plan financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America, except for the matter set forth in your Independent Auditors' Report. In addition:

   a. The financial statements properly classify all activities of the Plan.

   b. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved

   c. Capital assets are properly capitalized, reported, and depreciated

   d. Required supplementary information is measured and presented within prescribed guidelines.

2. The Plan has made available to you all:

   a. Financial records and related data for all financial transactions of the Plan.

   b. Minutes of meetings of Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared. The only minutes during the year and to the date of this letter are:

      - January 27, 2010
      - February 17, 2010
      - April 26, 2010
      - July 6, 2010
      - July 13, 2010
      - August 24, 2010
      - September 16, 2010
      - September 17, 2010
      - September 21, 2010

3. There has been no:

   a. Action taken by the Plan's management that contravenes the provisions of federal laws and FSM laws and regulations or of contracts and grants applicable to the Plan.

   b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

4. We have no knowledge of any fraud or suspected fraud affecting the Plan involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.

5. We have no knowledge of any allegations of fraud or suspected fraud affecting the Plan received in communications from employees, former employees, analysts, regulators, or others.

6. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies)*

7. We are responsible for compliance with local, state and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Plan's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Plan is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

8. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Plan's ability to initiate, record, process, and report financial information.

9. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

10. Based on our discussions during the course of the audit, management has made available to you the results of our assessment of the risk of whether the financial statements may be materially misstated as a result of fraud.

Except where otherwise stated below, matters less than $5,674 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

11. Except as listed in Appendices A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

12. The Plan has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

13. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

    b. Guarantees, whether written or oral, under which the Plan is contingently liable.

    c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

d. All impaired premiums of and other loans receivable.

14. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

15. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements.

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

16. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).

17. The Plan has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

18. The Plan has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.

19. No events have occurred after December 31, 2010 but before June 20, 2011, the date the financial statements were available to be issued, that require consideration as adjustments to or disclosures in the financial statements.

20. There are no control deficiencies in the design or operation of internal control over financial reporting that could adversely affect the Plan's ability to initiate, record, process, and report financial information.

21. We are aware of our requirement to disclose to you any change in the Plan's internal control over financial reporting that occurred during the Plan's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Plan's internal control over financial reporting and we advise you that no such changes have occurred that are reported to you.

22. No Corporation or agency of the Federal Government or the Governments of the Federated States of Micronesia has reported a material instance of noncompliance to us.

23. With regard to the fair value measurements and disclosures of certain assets, we believe that:

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.

    b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America.

    c. No events have occurred subsequent to September 30, 2010 that requires adjustment to the fair value measurements and disclosures included in the financial statements.

During fiscal year 2010, the Plan implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Plan.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Plan.

24. Receivables recorded in the financial statements represent valid claims against plan holders for premiums or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

25. The Plan is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balance(s).

26. As at September 30, 2010, the Plan has outstanding receivables from Chuuk State as follows: (a) Premium receivables of $138,788; and (b) Advances to a component unit (payable by the State) of $50,000. The Plan believes that there exists a high probability of collection based on advice received from Chuuk State management and, hence, no allowance is deemed necessary at this time. However, premiums receivable from a component unit of $47,110 have been fully provided with an allowance and due to the uncertainty when the $50,000 may be repaid by Chuuk State, we have classified this balance as long-term and understand that your opinion on the financial statements has highlighted this matter.

27. There were no items of physical property contained in the property accounts of the Plan that were either (a) abandoned or (b) out of service.

28. We represent to you that, subsequent to September 30, 2010, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses).

29. The Plan carries workmen's compensation liability insurance for all of its employees. 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.

6/23/11

Karsom Enlet — Date

Executive Director