

**REPUBLIC OF THE MARSHALL ISLANDS  
HEALTH CARE REVENUE FUND**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED SEPTEMBER 30, 2003 AND 2002**

## INDEPENDENT AUDITORS' REPORT

Honorable Minister Alvin Jacklick  
Ministry of Health  
Republic of the Marshall Islands:

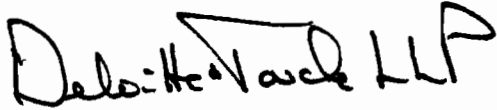
We have audited the accompanying financial statements of the Health Care Revenue Fund, a special revenue fund of the Republic of the Marshall Islands, as of and for the years ended September 30, 2003 and 2002. These financial statements are the responsibility of Health Care Revenue Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Health Care Revenue Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Health Care Revenue Fund and are not intended to present fairly the financial position and results of operations of the Republic of the Marshall Islands in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Health Care Revenue Fund, a special revenue fund of the Republic of the Marshall Islands, as of September 30, 2003 and 2002, and the results of that fund's operations in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2005, on our consideration of the Health Care Revenue Fund'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 read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte Touche LLP". The signature is written in a cursive, stylized font.

February 14, 2005

**REPUBLIC OF THE MARSHALL ISLANDS**  
**HEALTH CARE REVENUE FUND**

Balance Sheets  
September 30, 2003 and 2002

	2003	2002
<u>ASSETS</u>		
Cash	\$ 1,194,522	\$ 390,414
Receivables:		
Affiliates	980,969	1,205,263
Other	33,519	11,974
Deposit	-	25,000
	\$ 2,209,010	\$ 1,632,651
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 714,279	\$ 112,593
Other liabilities and accruals	1,296	6,754
Payable to affiliates	272,091	904,933
	987,666	1,024,280
Fund balance:		
Reserve for related assets	177,716	-
Unreserved	1,043,628	608,371
	1,221,344	608,371
Fund balance		
	1,221,344	608,371
Total liabilities and fund balance	\$ 2,209,010	\$ 1,632,651

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**  
**HEALTH CARE REVENUE FUND**

Statements of Revenues, Expenditures, and Changes in Fund Balance  
Years Ended September 30, 2003 and 2002

	2003	2002
<b>Revenues:</b>		
Hospital charges	\$ 249,693	\$ 265,122
Grants	117,592	139,284
Others	160,973	41,760
Total revenues	528,258	446,166
<b>Expenditures:</b>		
Pharmaceutical	1,168,574	731,201
Medical supplies	1,198,656	971,677
Hospital equipment	161,894	80,322
Professional and consulting fees	85,343	109,069
Freight and delivery	29,314	101,947
Other hospital expenses	49,699	26,078
<b>Administrative:</b>		
Salaries and wages	26,295	25,900
Communications	-	29,716
Other administrative expenses	326,498	26,638
Total expenditures	3,046,273	2,102,548
Deficiency of revenues under expenditures	(2,518,015)	(1,656,382)
<b>Other financing sources:</b>		
Contributions from RepMar	2,953,272	500,400
Contributions from MISSA	-	1,764,353
Total other financing sources	2,953,272	2,264,753
Change in fund balance	435,257	608,371
Fund balance at beginning of year	608,371	-
Residual equity transfer in (note 1)	177,716	-
Fund balance at end of year	\$ 1,221,344	\$ 608,371

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**  
**HEALTH CARE REVENUE FUND**

Notes to Financial Statements  
September 30, 2003 and 2002

(1) Reporting Entity

Effective October 1, 2002, the Nitijela of the Republic of the Marshall Islands (RepMar) passed Public Laws 2001-31 and 2001-35 to amend the Health Care Revenue Fund Act of 1989 and transfer the administration, control and management of the Health Care Revenue Fund (HCRF) from the Marshall Islands Social Security Administration (MISSA) to RepMar's Ministry of Health (MOH), which resulted in a residual equity transfer of \$177,716. The amendment also required that 45% of contributions collected by the Basic Health Benefits Plan be transferred to HCRF. HCRF was established to use funds, provided through appropriation by the Nitijela of RepMar and revenue received from hospital charges and other health care charges collected by MOH, for the purchase of drugs, medical supplies and equipment and the provision and administration of other health services.

The accompanying financial statements relate solely to those accounting records maintained by HCRF, and do not incorporate any accounts related to RepMar's Ministry of Health or any other departments or agencies of RepMar that may be accounted for by RepMar's Treasury. HCRF is considered to be a blended component unit (a Governmental Fund Type - Special Revenue Fund) of RepMar.

(2) Summary of Significant Accounting Policies

The financial statements of HCRF have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of HCRF's accounting policies are described below:

Measurement Focus and Basis of Accounting

HCRF reports its financial position and the results of its operations in one special revenue fund. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain HCRF functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

In the accompanying financial statements, the HCRF is classified as a governmental fund type - special revenue fund.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Special Revenue Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**REPUBLIC OF THE MARSHALL ISLANDS**  
**HEALTH CARE REVENUE FUND**

Notes to Financial Statements  
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

Basis of Presentation, Continued

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

Budget

An annual appropriated budget has not been formally adopted on a legal basis or a basis consistent with accounting principles generally accepted in the United States of America. Accordingly, a budget to actual presentation is not required or presented.

Cash

For the purposes of the balance sheet, cash is defined as cash in checking and savings accounts. As of September 30, 2003 and 2002, the carrying amount of HCRF's cash was \$1,194,522 and \$390,414, respectively, and the corresponding bank balance are \$1,203,539 and \$429,554, respectively. Of the bank balance amounts, \$1,157,126 and \$409,894, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003 and 2002, bank deposits in the amount of \$100,000 and \$106,405, respectively, are FDIC insured. HCRF does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

Prepaid Items

The HCRF recognizes expenditures for prepaid items under the "purchases method" as soon as the liability is incurred.

Compensated Absences

The HCRF recognizes expenditures for annual leave and sick leave when leave is actually taken. Accordingly, unused annual leave and sick leave are not included as an obligation within the balance sheet. The estimated accumulated amount of unused annual and sick leave at September 30, 2003 and 2002 is presently not determinable.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or which are legally segregated for a specific future use or not expected to be realized in cash during the ensuing year. Reserve for related assets represents amounts due from the Health Fund that are not expected to be repaid in the ensuing year.

**REPUBLIC OF THE MARSHALL ISLANDS  
HEALTH CARE REVENUE FUND**

Notes to Financial Statements  
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(3) Related Party Transactions

HCRF is a special revenue fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including all governmental funds of RepMar. Receivables from and payables to affiliates as of September 30, 2003 and 2002, are as follows:

	2003	
	<u>Receivables</u>	<u>Payables</u>
RepMar:		
General Fund	\$ 105,907	\$ 260,506
Health Fund	810,912	-
Four Atoll Medical Fund	64,150	-
MISSA	-	11,585
	\$ 980,969	\$ 272,091
	2002	
	<u>Receivables</u>	<u>Payables</u>
RepMar:		
General Fund	\$ 47,338	\$ 211,389
Four Atoll Medical Fund	125,100	-
MISSA	1,032,825	693,544
	\$ 1,205,263	\$ 904,933

Receivable from RepMar's Health Fund represents 45% of contributions collected by the Basic Health Benefits Plan unremitted at September 30, 2003. During the year ended September 30, 2002, the Basic Health Benefits Plan was administered by MISSA. Accordingly, the receivable from MISSA as of September 30, 2002 represents 45% of unremitted contributions collected by MISSA under the Basic Health Benefits Plan.

Receivable from RepMar's Four Atoll Medical Fund represents unremitted Compact of Free Association, Section 177 funding passed through to HCRF.



**REPUBLIC OF THE MARSHALL ISLANDS  
HEALTH CARE REVENUE FUND**

Notes to Financial Statements  
September 30, 2003 and 2002

**(3) Related Party Transactions, Continued**

Payables to MISSA represent unremitted payments by MOH to the former Health Care Revenue Fund administered by MISSA as of September 30, 2003 and 2002.

Payable to RepMar's General Fund are summarized as follows:

	2003	2002
Asian Development Bank 1316 loan proceeds	\$ 183,319	\$ 183,319
Pacific Health Research Institute deposit	77,187	28,070
	\$ 260,506	\$ 211,389

Contributions from RepMar during the years ended September 30, 2003 and 2002, are as follows:

	2003	2002
General Fund	\$ 155,493	\$ -
Health Fund	2,411,411	-
Education and Health Care Fund (Section 221(b))	73,618	-
Four Atoll Medical Fund (Section 177)	312,750	500,400
	\$ 2,953,272	\$ 500,400

Contributions from RepMar's Health Fund during the year ended September 30, 2003 represent 45% of collections of the Basic Health Benefits Plan. During the year ended September 30, 2002, the Basic Health Benefits Plan was administered by MISSA. Accordingly, the contributions from MISSA of \$1,764,353 represent 45% of collections of the Basic Health Benefits Plan administered by MISSA.

Contributions from RepMar through the Education and Health Care Fund and the Four Atoll Medical Fund represent Section 177 and Section 221(b) Compact of Free Association funding received in a sub-recipient capacity.

**(4) Risk Management**

HCRF is exposed to various risk of loss related to torts; theft of; damage to; and destruction of assets; errors and omissions, injuries to employees; and natural disasters. HCRF has elected to purchase commercial insurance from independent third parties for risks and losses to which is it exposed. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.