

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

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, 2004 and 2003. 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 referenced 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, 2004 and 2003, and the results of that fund's operations 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 March 31, 2006, on our consideration of HCRF'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.

Deloitte + Touche LLP

March 31, 2006

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

Balance Sheets
September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u> (As restated)
<u>ASSETS</u>		
Cash	\$ 1,031,465	\$ 1,194,522
Receivables:		
Affiliates	1,204,993	980,969
Other	21,079	33,519
Deposit	<u>16,912</u>	<u>-</u>
	<u>\$ 2,274,449</u>	<u>\$ 2,209,010</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 403,091	\$ 502,890
Other liabilities and accruals	2,878	1,296
Payable to affiliates	<u>94,485</u>	<u>272,091</u>
Total liabilities	<u>500,454</u>	<u>776,277</u>
Fund balance:		
Reserved for related assets	114,299	105,907
Unreserved	<u>1,659,696</u>	<u>1,326,826</u>
Fund balance	<u>1,773,995</u>	<u>1,432,733</u>
Total liabilities and fund balance	<u>\$ 2,274,449</u>	<u>\$ 2,209,010</u>

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, 2004 and 2003

	<u>2004</u>	<u>2003</u> (As restated)
Revenues:		
Hospital charges	\$ 268,373	\$ 249,693
Grants	60,960	117,592
Others	71,307	160,973
Total revenues	<u>400,640</u>	<u>528,258</u>
Expenditures:		
Pharmaceutical	1,187,412	1,168,574
Medical supplies	1,282,606	1,198,656
Hospital equipment	171,286	161,894
Professional and consulting fees	67,970	85,343
Freight and delivery	21,056	29,314
Other hospital expenses	2,300	49,699
Administrative:		
Salaries and wages	42,687	26,295
Communications	-	-
Other administrative expenses	113,182	115,109
Total expenditures	<u>2,888,499</u>	<u>2,834,884</u>
Deficiency of revenues under expenditures	(2,487,859)	(2,306,626)
Other financing sources:		
Contributions from RepMar	2,829,121	2,953,272
Total other financing sources	<u>2,829,121</u>	<u>2,953,272</u>
Change in fund balance	341,262	646,646
Fund balance at beginning of year	1,432,733	608,371
Residual equity transfer in (note 1)	-	177,716
Fund balance at end of year	<u>\$ 1,773,995</u>	<u>\$ 1,432,733</u>

See accompanying notes to financial statements.

REPUBLIC OF THE MARSHALL ISLANDS
HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2004 and 2003

(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 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).

**REPUBLIC OF THE MARSHALL ISLANDS
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Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

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.

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, 2004 and 2003, the carrying amount of HCRF's cash was \$1,031,465 and \$1,194,522 and the corresponding bank balance was \$1,106,350 and \$1,203,539, respectively. Of the bank balance amounts, \$1,026,011 and \$1,157,126, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004 and 2003, bank deposits in the amount of \$100,000 were FDIC insured. HCRF does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Prepaid Items

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, 2004 and 2003 is presently not determinable.

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Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

Fund Equity

Reserves represent those portions of fund equity not appropriate 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 RepMar's General Fund that are not expected to be repaid in the ensuing year.

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, 2004 and 2003, are as follows:

	2004	
	<u>Receivables</u>	<u>Payables</u>
RepMar:		
Health Fund	\$ 1,090,694	\$ 12,232
General Fund	<u>114,299</u>	<u>82,253</u>
	<u>\$ 1,204,993</u>	<u>\$ 94,485</u>
	2003	
	<u>Receivables</u>	<u>Payables</u>
RepMar:		
Health Fund	\$ 810,912	\$ -
General Fund	105,907	260,506
Four Atoll Medical Fund	64,150	-
MISSA	<u>-</u>	<u>11,585</u>
	<u>\$ 980,969</u>	<u>\$ 272,091</u>

Receivable from RepMar's Health Fund represents 45% of contributions collected by the Basic Health Benefits plan unremitted at September 30, 2004 and 2003.

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Notes to Financial Statements
September 30, 2004 and 2003

(3) Related Party Transactions, Continued

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

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

	<u>2004</u>	<u>2003</u>
Asian Development Bank 1316 loan proceeds	\$ -	\$ 183,219
Pacific Health Research Institute deposit	<u>82,253</u>	<u>77,187</u>
	<u>\$ 82,253</u>	<u>\$ 260,506</u>

Contributions from RepMar during the years ended September 30, 2004 and 2003, are as follows:

	<u>2004</u>	<u>2003</u>
General Fund	\$ 111,000	\$ 155,493
Health Fund	2,718,121	2,411,411
Education and Health Care Fund (Section 221(b))	-	73,618
Four Atoll Medical Fund (Section 177)	<u>-</u>	<u>312,750</u>
	<u>\$ 2,829,121</u>	<u>\$ 2,953,272</u>

Contributions from RepMar's Health Fund during the years ended September 30, 2004 and 2003 represent 45% of collections of the Basic Health Benefits Plan.

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.

(5) Restatement

Subsequent to the issuance of HCRF's 2003 financial statements, HCRF's management determined that accounts payable were overstated by \$211,389. As a result, accounts payable and other administrative expenditures have been restated from the amounts previously reported.