

**HEALTH CARE REVENUE FUND**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

## INDEPENDENT AUDITORS' REPORT

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

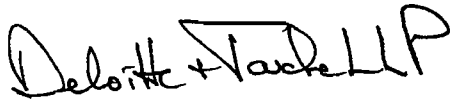
We have audited the accompanying financial statements of the Health Care Revenue Fund (the Fund), a special revenue fund of the Republic of the Marshall Islands (RepMar), as of and for the years ended September 30, 2005 and 2004. These financial statements are the responsibility of the Fund's management. 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 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 as of September 30, 2005 and 2004, 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 May 18, 2006, on our consideration of the 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, slightly stylized font.

May 18, 2006

## HEALTH CARE REVENUE FUND

Balance Sheets  
September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash	\$ 1,043,231	\$ 1,031,465
Receivables:		
Affiliates	1,052,574	1,204,993
Other	28,356	21,079
Deposit	<u>18,534</u>	<u>16,912</u>
	<u>\$ 2,142,695</u>	<u>\$ 2,274,449</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 351,915	\$ 346,378
Other liabilities and accruals	1,579	2,878
Payable to affiliates	<u>250,619</u>	<u>151,198</u>
Total liabilities	<u>604,113</u>	<u>500,454</u>
Fund balance:		
Reserved for related assets	-	114,299
Unreserved	<u>1,538,582</u>	<u>1,659,696</u>
Total fund balance	<u>1,538,582</u>	<u>1,773,995</u>
Total liabilities and fund balance	<u>\$ 2,142,695</u>	<u>\$ 2,274,449</u>

See accompanying notes to financial statements.

## HEALTH CARE REVENUE FUND

### Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Hospital charges	\$ 194,275	\$ 268,373
Grants	145,914	60,960
Others	85,669	71,307
Total revenues	<u>425,858</u>	<u>400,640</u>
Expenditures:		
Pharmaceutical	1,460,602	1,187,412
Medical supplies	1,196,906	1,282,606
Freight and delivery	101,916	21,056
Professional and consulting fees	58,683	67,970
Hospital equipment	20,289	171,286
Other hospital expenses	425	2,300
Administrative:		
Other administrative expenses	146,921	101,995
Travel	70,653	11,187
Salaries and wages	24,794	42,687
Total expenditures	<u>3,081,189</u>	<u>2,888,499</u>
Deficiency of revenues under expenditures	(2,655,331)	(2,487,859)
Other financing sources:		
Contributions from RepMar	2,419,918	2,829,121
Total other financing sources	<u>2,419,918</u>	<u>2,829,121</u>
Net change in fund balance	(235,413)	341,262
Fund balance at beginning of year	<u>1,773,995</u>	<u>1,432,733</u>
Fund balance at end of year	<u>\$ 1,538,582</u>	<u>\$ 1,773,995</u>

See accompanying notes to financial statements.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2005 and 2004

### (1) Reporting Entity

The Health Care Revenue Fund (the Fund), a governmental fund type - special revenue fund of the Republic of the Marshall Islands (RepMar) was established pursuant to the Marshall Islands Health Care Revenue Fund Act of 2001. Administration, control and management of the Fund was transferred 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 the Fund. The Fund 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 the Fund, 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. The Fund is considered to be a blended component unit (governmental fund type-special revenue fund) of RepMar.

### (2) Summary of Significant Accounting Policies

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

#### Measurement Focus and Basis of Accounting

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

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.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2005 and 2004

### (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. For this purpose, the Fund considers revenues to be available if they are collected within 90 days of the end of the current fiscal 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 GAAP. 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, 2005 and 2004, the carrying amounts of the Fund's cash were \$1,043,231 and \$1,031,465 and the corresponding bank balances were \$1,075,312 and \$1,106,350, respectively. Of the bank balance amounts, \$958,193 and \$1,026,011, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005 and 2004, bank deposits in the amount of \$100,000 were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk. The Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

Custodial credit risk is the risk that in the event of a bank failure, the Fund'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 Fund does not have a deposit policy for custodial credit risk.

#### Compensated Absences

The Fund 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, 2005 and 2004 is presently not determinable.

#### Taxes

The Government of RepMar imposes a gross receipts tax of 3% on revenues. The Fund is specifically exempt from this tax.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2005 and 2004

### (2) Summary of Significant Accounting Policies, Continued

#### 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. The reserve for related assets represents amounts due from RepMar's general fund that is not expected to be repaid in the ensuing year.

#### New Accounting Standards

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

In 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 Fund.

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

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

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. 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. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.



## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2005 and 2004

### (2) Summary of Significant Accounting Policies, Continued

#### Estimates

The preparation of financial statements in conformity with GAAP 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.

#### Reclassification

Certain reclassifications have been made to the 2004 financial statements in order to conform to the 2005 presentation.

### (3) Related Party Transactions

The Fund is a special revenue fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. Receivables from and payables to affiliates as of September 30, 2005 and 2004, are as follows:

	2005		2004	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Fund	\$ 1,049,274	\$ 42,409	\$ 1,090,694	\$ 12,232
General Fund	3,300	171,292	114,299	138,966
Federal Grants	-	16,263	-	-
Other	-	20,655	-	-
	<u>\$ 1,052,574</u>	<u>\$ 250,619</u>	<u>\$ 1,204,993</u>	<u>\$ 151,198</u>

Receivable from RepMar's Health Fund represent 45% of contributions to the Basic Health Benefits Plan not transferred by Health Fund at September 30, 2005 and 2004.

Payables to RepMar's general fund are summarized as follows:

	2005	2004
Asian Development Bank 1316 loan impres balance	\$ 56,713	\$ 56,713
Pacific Health Research Institute deposit	<u>114,579</u>	<u>82,253</u>
	<u>\$ 171,292</u>	<u>\$ 138,966</u>

Contributions from RepMar during the years ended September 30, 2005 and 2004 are as follows:

	2005	2004
General Fund	\$ -	\$ 111,000
Health Fund	2,383,383	2,718,121
Compact (Section 211(a) Health Sector)	<u>36,535</u>	<u>-</u>
	<u>\$ 2,419,918</u>	<u>\$ 2,829,121</u>

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2005 and 2004

### (3) Related Party Transactions, Continued

Contributions from RepMar's Health Fund during the years ended September 30, 2005 and 2004 represents 45% of collections of the Basic Health Benefit Plan.

Contributions from RepMar through the Health Sector Fund represent Section 211(a) Compact of Free Association, as amended, funding received in a subrecipient capacity.

### (4) Risk Management

The Fund 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. The Fund 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.