

**HEALTH CARE REVENUE FUND
(A GOVERNMENTAL FUND OF THE
REPUBLIC OF THE MARSHALL ISLANDS)**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

INDEPENDENT AUDITORS' REPORT

Honorable Amenta Matthew
Ministry of Health
Republic of the Marshall Islands:

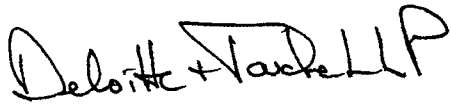
We have audited the accompanying financial statements of the Health Care Revenue Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), as of and for the years ended September 30, 2007 and 2006. These financial statements are the responsibility of the Fund's management. 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 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 as of September 30, 2007 and 2006, 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 July 7, 2008 on our consideration of the Fund's internal control over financial reporting and on 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 that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

July 7, 2008

HEALTH CARE REVENUE FUND

Balance Sheets
September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 806,536	\$ 206,642
Receivables:		
Affiliates	700,181	1,292,536
Other	4,422	8,951
Deposit	<u>77,348</u>	<u>16,912</u>
	<u>\$ 1,588,487</u>	<u>\$ 1,525,041</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 392,242	\$ 598,193
Other liabilities and accruals	64,223	31,123
Payable to affiliates	<u>282,390</u>	<u>219,150</u>
Total liabilities	738,855	848,466
Fund balance	<u>849,632</u>	<u>676,575</u>
Total liabilities and fund balance	<u>\$ 1,588,487</u>	<u>\$ 1,525,041</u>

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2007 and 2006

	2007	2006
Revenues:		
Grants	\$ 238,921	\$ 365,830
Hospital charges	271,380	233,682
Other	114,130	130,369
Total revenues	624,431	729,881
Expenditures:		
Medical supplies	1,577,631	1,822,763
Pharmaceutical	1,272,166	1,877,272
Professional and consulting fees	108,994	46,716
Hospital equipment	77,155	18,090
Freight and delivery	106,821	159,648
Outer island dispensaries	235,248	106,570
Administrative:		
Other administrative expenses	151,795	210,459
Travel	59,284	94,674
Salaries and wages	30,718	58,856
Total expenditures	3,619,812	4,395,048
Deficiency of revenues under expenditures	(2,995,381)	(3,665,167)
Other financing sources:		
Contributions from RepMar's Health Fund	3,168,438	2,803,160
Total other financing sources	3,168,438	2,803,160
Net change in fund balance	173,057	(862,007)
Fund balance at beginning of year	676,575	1,538,582
Fund balance at end of year	\$ 849,632	\$ 676,575

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2007 and 2006

(1) Reporting Entity

The Health Care Revenue Fund (the Fund), a governmental 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). The Fund's enabling legislation also requires 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-governmental 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 governmental 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 (governmental funds).

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental 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, 2007 and 2006

(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

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.

For the purposes of the balance sheet, cash is defined as cash in checking and savings accounts. As of September 30, 2007 and 2006, the carrying amounts of the Fund's cash were \$806,536 and \$206,642, respectively, and the corresponding bank balances were \$917,028 and \$272,704, respectively. Of the bank balances, \$865,176 and \$258,625, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, 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.

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, 2007 and 2006 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, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which 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, 2006. Management does not believe that 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*, which 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, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues, which and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. 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 2007, GASB issued Statement No. 50, *Pension Disclosures-an Amendment of GASB Statements No. 25 and 27*, which amends applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27 *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements 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*. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of the Fund.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. 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, 2007 and 2006

(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.

(3) Related Party Transactions

The Fund is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. The Marshall Islands Health Fund (the Health Fund) is a governmental fund of RepMar established by the Nitijela to provide, pay, or reimburse all or a determined portion of the cost of basic health care obtained at a local health care facility, as an approved off-island medical referral, or as emergency off-island medical care. The Health Fund includes the operations of the Basic Health Benefits Plan, which provides a substantial portion of the funding of the Fund.

Receivables from and payables to affiliates as of September 30, 2007 and 2006, are as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Fund	\$ 662,881	\$ 42,409	\$ 1,270,236	\$ 42,409
General Fund	37,300	209,450	22,300	144,917
Federal Grants	-	16,263	-	16,263
Other	<u>-</u>	<u>14,268</u>	<u>-</u>	<u>15,561</u>
	<u>\$ 700,181</u>	<u>\$ 282,390</u>	<u>\$ 1,292,536</u>	<u>\$ 219,150</u>

Receivable from RepMar's Health Fund represent 45% of contributions to the Basic Health Benefits Plan not transferred by the Health Fund at September 30, 2007 and 2006.

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

	<u>2007</u>	<u>2006</u>
Asian Development Bank 1316 loan imprest balance	\$ 56,936	\$ 56,936
Pacific Health Research Institute deposit	95,535	87,817
Import tax	56,598	-
Others	<u>381</u>	<u>164</u>
	<u>\$ 209,450</u>	<u>\$ 144,917</u>

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2007 and 2006

(3) Related Party Transactions, Continued

Contributions from RepMar during the years ended September 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Health Fund	\$ <u>3,168,438</u>	\$ <u>2,803,160</u>

Contributions from RepMar's Health Fund during the years ended September 30, 2007 and 2006 represent 45% of collections of the Basic Health Benefits Plan.

(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.

(5) Contingency

The Fund receives substantially all of its funding from RepMar through collections of the Health Fund's Basic Health Benefits Plan. A significant reduction in the level of this funding, if this were to occur, may have an effect on the Fund's programs and activities.

(6) Subsequent Event

On September 25, 2007, the Nitijela passed Public Law 2007-93, the Marshall Islands Health Fund (Amendment) Act of 2007, which required the Health Fund, effective October 29, 2007, to transfer to the Fund a sum equal to 55% of the total quarterly contributions collected by the Basic Health Benefits Plan.