

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

INDEPENDENT AUDITORS' REPORT

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

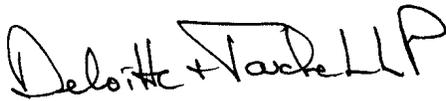
We have audited the accompanying balance sheets of the Health Care Revenue Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), as of September 30, 2009 and 2008, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. 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, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Health Care Revenue Fund, a governmental fund of the Republic of the Marshall Islands, as of September 30, 2009 and 2008, 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 April 30, 2010 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 + Stark LLP". The signature is written in a cursive, flowing style.

April 30, 2010

HEALTH CARE REVENUE FUND

Balance Sheets
September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash	\$ 657,752	\$ 847,751
Receivables:		
Affiliates	883,385	873,302
Employees	16,710	11,061
Other	<u>21,042</u>	<u>10,239</u>
	921,137	894,602
Less allowance for doubtful accounts	<u>(30,609)</u>	<u>(30,609)</u>
	890,528	863,993
Deposit	<u>62,450</u>	<u>50,453</u>
	<u>\$ 1,610,730</u>	<u>\$ 1,762,197</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 167,562	\$ 663,986
Other liabilities and accruals	482,228	32,905
Payable to affiliates	<u>318,419</u>	<u>313,058</u>
Total liabilities	968,209	1,009,949
Fund balance	<u>642,521</u>	<u>752,248</u>
Total liabilities and fund balance	<u>\$ 1,610,730</u>	<u>\$ 1,762,197</u>

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2009 and 2008

	2009	2008
Revenues:		
Hospital charges	\$ 274,464	\$ 307,611
Grants	183,497	154,234
Other	48,790	39,731
Total revenues	506,751	501,576
Expenditures:		
Pharmaceutical	1,552,514	1,409,061
Medical supplies	1,186,649	1,195,568
Hospital equipment	115,146	211,932
Freight and delivery	98,045	122,571
Professional and consulting fees	59,917	144,993
Outer island dispensaries	-	11,236
Administrative:		
Salaries and wages	55,583	31,558
Communications	38,918	43,094
Travel	38,558	92,708
Training	20,897	65,759
Office equipment	19,977	68,960
Supplies	7,050	28,727
Other administrative expenses	97,787	78,230
Total expenditures	3,291,041	3,504,397
Deficiency of revenues under expenditures	(2,784,290)	(3,002,821)
Other financing sources:		
Contributions from RepMar's Health Fund	2,674,563	2,987,240
Net change in fund balance	(109,727)	(15,581)
Fund balance at beginning of year	752,248	767,829
Fund balance at end of year	\$ 642,521	\$ 752,248

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2009 and 2008

(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 55% 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 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 government 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 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 in 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 fund balance.

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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

Basis of Presentation, Continued

Significant revenues susceptible to accrual include revenue received from hospital charges and other health care charges collected by the Ministry of Health as well as grants, gifts and donations.

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 sheets, cash is defined as cash in checking and savings accounts. As of September 30, 2009 and 2008, the carrying amounts of the Fund's cash were \$657,752 and \$847,751, respectively, and the corresponding bank balances were \$638,413 and \$849,164, respectively. Of the bank balances, \$520,259 and \$758,315, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of \$250,000 and \$100,000, respectively, were FDIC insured. The Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

Receivables include amounts due from affiliates, employees, and other sources. These receivables are not collateralized and are non-interest bearing.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience.

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, 2009 and 2008 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, 2009 and 2008

(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.

New Accounting Standards

During fiscal year 2009, the Fund implemented the following pronouncements:

- GASB 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 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.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

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, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 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. 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.

In December 2008, GASB issued 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. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

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 does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

(3) Risk Management

The Fund is exposed to various risks 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 the risks of loss to which it is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(4) 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 Fund's funding.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2009 and 2008

(4) Related Party Transactions, Continued

Receivables from and payables to affiliates as of September 30, 2009 and 2008, are as follows:

	<u>2009</u>		<u>2008</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Fund	\$ 862,877	\$ 42,409	\$ 852,794	\$ 42,409
General Fund	20,508	241,058	20,508	238,716
Federal Grants	-	16,263	-	16,263
Other	<u>-</u>	<u>18,689</u>	<u>-</u>	<u>15,670</u>
	<u>\$ 883,385</u>	<u>\$ 318,419</u>	<u>\$ 873,302</u>	<u>\$ 313,058</u>

Receivables from RepMar's Health Fund represent 55% of contributions to the Basic Health Benefits Plan not transferred by the Health Fund at September 30, 2009 and 2008.

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

	<u>2009</u>	<u>2008</u>
Asian Development Bank 1316 loan impres balance	\$ 56,936	\$ 56,936
Pacific Health Research Institute deposit	161,220	161,220
Import tax	-	-
Others	<u>22,902</u>	<u>20,560</u>
	<u>\$ 241,058</u>	<u>\$ 238,716</u>

Contributions from RepMar's Health Fund during the years ended September 30, 2009 and 2008 were \$2,674,563 and \$2,987,240, respectively, representing 55% of collections of the Basic Health Benefits Plan.

(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.