

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

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**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

## **INDEPENDENT AUDITORS' REPORT**

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

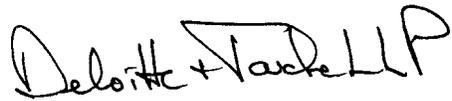
We have audited the accompanying balance sheets of the Health Care Revenue Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), as of September 30, 2010 and 2009, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. 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, 2010 and 2009, 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 June 23, 2011 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 + Touche LLP". The signature is written in a cursive, flowing style.

June 23, 2011

# HEALTH CARE REVENUE FUND

Balance Sheets  
September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash	\$ 1,861,427	\$ 657,752
Receivables:		
Affiliates	938,591	883,385
Employees	17,632	16,710
Other	34,055	21,042
	<u>990,278</u>	<u>921,137</u>
Less allowance for doubtful accounts	<u>(23,009)</u>	<u>(30,609)</u>
	967,269	890,528
Deposit	<u>31,874</u>	<u>62,450</u>
	<u>\$ 2,860,570</u>	<u>\$ 1,610,730</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 263,626	\$ 167,562
Other liabilities and accruals	209,833	482,228
Payable to affiliates	338,780	318,419
Total liabilities	<u>812,239</u>	<u>968,209</u>
Fund balance	<u>2,048,331</u>	<u>642,521</u>
Total liabilities and fund balance	<u>\$ 2,860,570</u>	<u>\$ 1,610,730</u>

See accompanying notes to financial statements.

## HEALTH CARE REVENUE FUND

### Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2010 and 2009

	2010	2009
Revenues:		
Grants	\$ 712,106	\$ 183,497
Hospital charges	252,763	274,464
Other	42,456	48,790
Total revenues	1,007,325	506,751
Expenditures:		
Pharmaceutical	1,447,158	1,552,514
Medical supplies	1,038,638	1,186,649
Professional and consulting fees	104,842	59,917
Hospital equipment	85,912	115,146
Freight and delivery	76,878	98,045
Administrative:		
Salaries and wages	204,808	55,583
Training	124,002	20,897
Travel	81,697	38,558
Communications	32,022	38,918
Supplies	23,758	7,050
Office equipment	13,016	19,977
Other administrative expenses	84,159	97,787
Total expenditures	3,316,890	3,291,041
Deficiency of revenues under expenditures	(2,309,565)	(2,784,290)
Other financing sources:		
Contributions from RepMar's Health Fund	3,715,375	2,674,563
Net change in fund balance	1,405,810	(109,727)
Fund balance at beginning of year	642,521	752,248
Fund balance at end of year	\$ 2,048,331	\$ 642,521

See accompanying notes to financial statements.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2010 and 2009

### (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, 2010 and 2009

### (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, 2010 and 2009, the carrying amounts of the Fund's cash were \$1,861,427 and \$657,752, respectively, and the corresponding bank balances were \$1,958,576 and \$638,413, respectively. Of the bank balances, \$1,915,779 and \$520,259, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of \$250,000 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 unless such leave is expected to be liquidated with expendable available financial resources, at which time expenditures and related fund liabilities would be recognized.

#### 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, 2010 and 2009

### (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 2010, the Fund implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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.
- GASB 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.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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 has not evaluated the effect that the implementation of this statement will have on the financial statements of the Fund.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2010 and 2009

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

#### New Accounting Standards, Continued

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement 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*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have 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, 2010 and 2009

(4) Related Party Transactions, Continued

Receivables from and payables to affiliates as of September 30, 2010 and 2009, are as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Fund	\$ 918,083	\$ -	\$ 862,877	\$ 42,409
General Fund	20,508	301,204	20,508	241,058
Federal Grants	-	16,263	-	16,263
Other	<u>-</u>	<u>21,313</u>	<u>-</u>	<u>18,689</u>
	<u>\$ 938,591</u>	<u>\$ 338,780</u>	<u>\$ 883,385</u>	<u>\$ 318,419</u>

Contributions from RepMar's Health Fund during the years ended September 30, 2010 and 2009 were \$3,715,375 and \$2,674,563, respectively, representing 55% of collections of the Basic Health Benefits Plan. 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, 2010 and 2009.

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

	<u>2010</u>	<u>2009</u>
Asian Development Bank 1316 loan imprest balance	\$ 56,936	\$ 56,936
Pacific Health Research Institute deposit	161,220	161,220
Comprehensive Health Services	60,985	-
Others	<u>22,063</u>	<u>22,902</u>
	<u>\$ 301,204</u>	<u>\$ 241,058</u>

(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.